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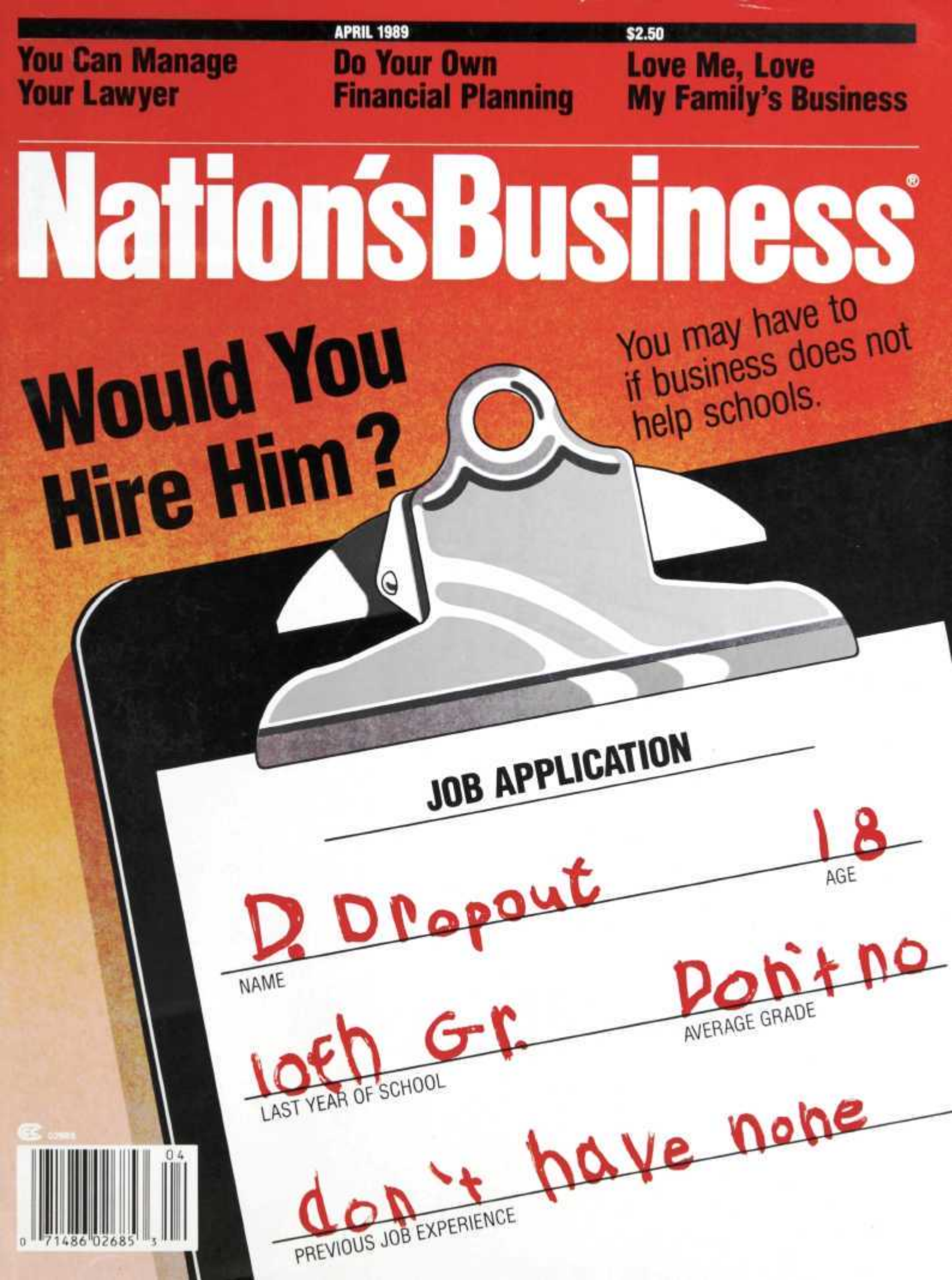
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Nation's Business®

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MANAGING YOUR BUSINESS





PHOTO: ©ROSE PROUSER

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PHOTO: ©ROBERT HOLMGREN

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COMMENTARY

Letters

Reaction To Section 89

Your February cover story on Section 89, "Government Gone Crazy," drives home the notion of just how far removed members of the U.S. Congress are from the realities of an America that is desperately trying to avoid becoming a second-rate industrial power.

In my own company, as in thousands of others in this country, productivity,



ILLUSTRATION: DALE GLASGOW

efficiency, and revival of entrepreneurial values are paramount issues because only they can restore our ability to compete in the global marketplace.

Numerous are the examples of imaginative new initiatives for doing things better and faster, from pizzas to power plants. But our representatives in Washington, in their misguided attempt at "fairness by legislation," see nothing wrong with creating an administrative monster [Section 89] that will tie up thousands of people in dull and mindless recordkeeping in which the very people they pretend to protect will end up without pensions and insurance, if not without jobs at all.

Anyone in private business who had a hand in creating a bureaucratic behemoth such as that imposed by Section 89 of the federal tax code would most likely be fired for lack of judgment and intolerable disregard for the interests of his company and its employees.

Frank J. Van Bers
Edison, N.J.

This story is typical of the pro-big-business propaganda that your magazine espouses.

In the article, Frederick J. Krebs, manager of business and government policy for the U.S. Chamber of Commerce, contends that the effect of the new pension-plan rules and Section 89 will be fewer benefits.

I am an employee of a small business and would like to report that as a result of the 1982 Tax Equity and Fiscal Responsibility Act, I netted approximately $3,300 in pension-plan benefits in 1988. Furthermore, my health-insurance deductible decreased significantly, and my general coverage increased as of Jan. 1, 1989, which I suspect was a result of Section 89.

If the nation's businesses treated their employees fairly and equitably on their own, there would not be any need for congressional "blunders" as you smugly describe them, or for your magazine's continuous whining.

John E. Nordmeyer
Whiting, Vt.

You describe what might be a backhand approach by Congress to institute socialized health insurance in this country.

By making private insurance so difficult to administer, many smaller companies may drop their benefits plans, thus providing Congress with the political will to create a national health-insurance plan to replace that dropped by "cold-hearted" employers.

Donald Allen
Charleston, S.C.

Time To Shape Up

February's editorial "Now It's Time For Congress To Read Voters' Lips On Tax Increases" was properly directed to the body that holds our financial future in its hands: Congress.

Lately, congressional handling of our tax money reminds me of what Will Rogers had to say about it: "It's not that I mind paying taxes but what they do with it after they get it."

The failure of our farm program to solve the farmer's problems and the failure of welfare and entitlement programs to eliminate the plight of the poor and disadvantaged should be enough to indicate other remedies. Representatives and senators are going to have to perform and vote as if they were in Washington not to get re-elected but to act in the best interests of the country.

W.L. Solomon Jr.
Belzoni, Miss.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

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Small-Business Update

By Donald C. Bacon

"Antibusiness Bills" Reappear

A "long list of antibusiness legislation" that the business community successfully opposed in Congress last year "is coming back, and it's coming back quickly," Sen. Trent Lott, R-Miss., warned in a speech before association executives in Washington.

Lott, elected to the Senate last November after 16 years in the House, including eight years as House Republican whip, noted that a minimum-wage increase as well as proposals for mandated child-care, parental-leave, and health-care benefits for employees are all surfacing in the Democratic-controlled Congress again in 1989.

Enactment of some or all of these bills would add substantially to employers' costs and could be "devastating" for small business, Lott said.

He cautioned business not to underestimate the support for mandated-benefits legislation. "Get out there with alternatives, an idea, an initiative, or you're going to get behind, and it's going to be downhill all the way," Lott advised business.

He said that business had picked "a good target" in demanding repeal of Section 89, the much-criticized new law that requires employers to conduct complex tests to assure that benefit programs do not discriminate against lower-income workers. (See the Section 89 story on Page 65.)

Lott counseled business, however, not to let the effort to repeal Section 89 "take up so much of your time that you can't also focus on some of these other antibusiness bills that are coming before the Congress."

Lott addressed the Association Insiders, composed of leaders of business and trade associations affiliated with the Association Department of the U.S. Chamber of Commerce.

Small-Business Owners Put Their Homes On The Line

Although they can be risky, home-equity loans are becoming increasingly popular as a source of business capital, says the accounting and management consulting firm of Singer, Lewak, Greenbaum and Goldstein in a report to clients.



PHOTO: NATION'S BUSINESS

Small business could be devastated by higher costs if Congress enacts minimum-wage and mandated-benefits bills this year, Sen. Trent Lott, R-Miss., warns.

The Los Angeles-based firm, noting that as much as one-fourth of home-equity loans are used for business purposes, cautioned that such financing may be highly inappropriate for many business owners.

"Since the loans are secured by your home, if business takes a downturn and you fall behind in repayment, you risk losing your home," the firm warned. "While you would not want to default on any loan, the consequences of defaulting on a home-equity loan may be especially grave."

A home-equity loan is essentially a line of credit that a borrower may use for virtually any purpose.

Such loans have flourished since passage of the Tax Reform Act of 1986. The new law limited the deductibility of consumer-loan interest but allowed 100 percent deductibility of interest on home-equity loans up to $100,000.

The firm said business owners are attracted to home-equity financing primarily because interest rates and processing fees are generally lower than for conventional business borrowing. Also, borrowers often can obtain home-equity loans more easily and quickly than most other loans.

"Despite the risks, a home-equity loan can be an excellent source of financing for some small businesses," the firm concluded. "If, for example, you have a sound business plan, have the skills to implement that plan, and know how to use the money, a home-equity loan may offer a source of funds that you otherwise might not be able to raise."

SBA Offers Entrepreneurs Free Advice By Telephone

Prospective entrepreneurs can obtain free basic advice by telephoning a new computerized information service operated by the Small Business Administration's Office of Advocacy.

Recorded messages cover topics such as starting a business, financing a business, and getting help in managing a business.

Those callers who would like to receive additional help may talk to SBA counselors.

The SBA Answer Desk can be reached by calling (202) 653-7561; the toll-free number for those calling from outside Washington is 1-800-368-5855.

New Booklet Helps Officials Cram For Annual Meetings

If President Bush bones up for press conferences by rehearsing answers to questions that his aides expect reporters to ask, why shouldn't corporate officials similarly prepare for the interrogations of stockholders at annual meetings?

Company officials, of course, should come to meetings ready to field "a wide range of questions dealing with issues both on and off the balance sheet," says the accounting and consulting firm of Deloitte Haskins & Sells.

In order to help corporate leaders in their preparations, Deloitte Haskins & Sells has compiled and published in booklet form a long list of hostile as well as friendly questions that the firm believes stockholders are most likely to

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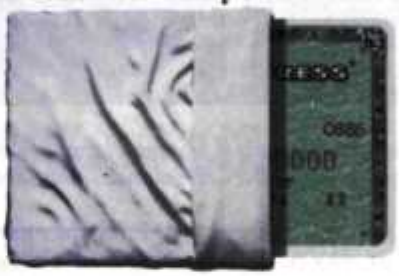
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Four new publications from the U.S. Chamber of Commerce can help those who want to sort out—and be heard on—the business-related issues facing Congress this year. The publications are: *1989 Congressional Issues, 1989 Congressional Handbook, A Guide to Communicating with Members of Congress,* and *How They Voted 1988.*

The *Issues* booklet, available to Chamber members for $7.50 (or $8 to nonmembers), provides fact sheets on 99 of the most pressing business topics. The *Handbook,* at $3 a copy ($3.25 to nonmembers), contains essential data on Congress, including office addresses, telephone numbers, and committee assignments of all House and Senate members. The *Guide,* also at $3 ($3.25 to nonmembers), offers tips on how and when to make your views known to the lawmakers. Finally, *How They Voted,* at $2 ($2.25 to nonmembers), will tell you where individual senators and representatives stood last year on key business issues.

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raise this year at meetings. Following are some of the questions that should be expected:

- Is the company considered a likely takeover candidate? Why or why not?
- Has the company management considered purchasing the company in an LBO (leveraged-buyout) transaction? How would stockholders be ensured a fair price for their stock?
- How does the company prevent introduction of "viruses" or other unauthorized access to its computer data files by employees and outsiders?
- What is the company's position with regard to testing of employees for drug use or other health-related issues?
- Is the company under investigation by any agency of the federal government, or any agency of a state or foreign government?

Copies of the booklet are available at no charge by writing on company stationery to the Public Relations Department, Deloitte Haskins & Sells, 1114 Avenue of the Americas, New York, N.Y. 10036.

What Bosses Really Think Of Their New Recruits

Many new managers and professionals enter their first jobs poorly prepared to succeed in business, according to a poll of top executives.

Nearly half of the 503 business leaders surveyed by Opinion Research Corp., in Princeton, N.J., said they believe new hires are unable to deal effectively with other people. Even more bosses found young managers and professionals deficient in other crucial areas:

- Fifty-four percent said their young colleagues lack the ability to think critically;
- Fifty-five percent gave new managers and professionals failing grades in general business knowledge;
- Sixty-six percent said that new managers and professionals cannot write clearly.

New hires were judged to be at least reasonably well prepared to manipulate data and operate computers. The executives rated those qualities, however, as far less important in determining the effectiveness of a new manager or professional than the ability to handle interpersonal relationships, think critically, and write well.

New Hope For Relief From Crush Of Liability Suits

Businesses, battered of late by a torrent of liability suits, which have clogged the courts and drained the bank accounts of many defendants, may be getting some relief.

At least 39 states in the past three years have enacted significant legislation to help restore "fairness, balance, and predictability" to the civil-justice system, according to a report by the American Tort Reform Association, in Washington.

In 1988 alone, 15 states enacted "good, meaningful tort-reform legislation," said Blair Childs, executive director of the association, a bipartisan coalition of more than 400 small-business, corporate, professional, nonprofit, and other organizations. "We expect 28 states to address tort-reform legislation during 1989."

Childs said the most frequently debated issues this year will be punitive damages, caps on noneconomic damages, reduction of attorneys' fees, abolition of joint and several liability, product liability, and medical-malpractice legislation.

Childs predicted multiple benefits for business as more states modify or repeal civil-liability laws. "By making the legal system more predictable, people can make business decisions that are more intelligent, less expensive, and less time-consuming," he added. "Insurance rates should become more predictable. And you will not have the same chilling effect on innovation that is occurring in this country now. . . . Frankly, we have products that simply are not put on the market because of fear of liability."

Still, many business advocates believe that revised state statutes alone cannot resolve the current widespread legal confusion caused by different states having their own product-liability laws, each subject to different court interpretations. Through such groups as the U.S. Chamber of Commerce, they continue to support proposals for a uniform federal product-liability law.

Applications Available For Baldrige Competition

Companies wishing to compete for this year's Malcolm Baldrige National Quality Awards may obtain applications from the National Institute of Standards and Technology, Building 101, Room A1123, Gaithersburg, Md. 20899.

The Baldrige awards, named for the late secretary of commerce, were established by Congress in 1987 as a way to promote quality awareness, recognize quality achievements of U.S. companies, and publicize successful quality strategies.

Up to six awards, including two earmarked for small businesses, are made annually.

The winners of last year's awards were Motorola Inc., Schaumburg, Ill.; the Commercial Nuclear Fuel Division of Westinghouse Electric Corp., Columbia, S.C.; and Globe Metallurgical Inc., Beverly, Ohio.

The deadline for applications is May 5, 1989. **NB**

ENTREPRENEUR'S NOTEBOOK

Cutting Through Start-Up Problems

By Karen Smith

If you run a small business, you know that you will encounter a lot of problems, some of them so serious that you might wonder whether you can survive them. But problems can have a plus side, too, because if your business is strong enough to overcome them, you know you are on the right track.

Based on this test, I know I have a winner in what I'm doing.

One challenge I have to overcome continually is convincing people I'm serious when I tell them the nature of my business—sharpening knives with cardboard. Yes, cardboard. The kind on the back of a writing pad.

When people think about knife-sharpening tools, they think about grinding wheels and stone and metal. So they think it's funny when I tell them that I can do a better job with



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So many people were interested in what we were doing that we went commercial. From our home in Skiatook, Okla., near Tulsa, we traveled through the Midwest, attending trade shows—such as gun owners' conventions—likely to attract people with knives. We also sold kits of wheels and polish to people who wanted to do their own sharpening.

Business was terrific. It was too terrific. We couldn't keep up with orders without getting into mass production, a marketing system, and all the other demands of business. Our expenses grew higher and higher. We took on some business partners who were willing to finance an expansion, but they wanted us to organize and conduct the business by rules that we didn't think suitable. The investors turned the business back to my father, who had decided he didn't want to continue it. In 1984, I moved to Washington state, where many of my relatives live. The area's economy wasn't thriving, and I had trouble finding a job that I wanted. So I revived Blade Works, my knife-sharpening business.

It wasn't easy. First, many of the farmers and ranchers I looked to for ...came from a pioneer tradi... which you did things yourself. ...ainly didn't pay somebody ...rpen your knives, especially ...ed knives for hunting and ...Second, you didn't hire a ... do a man's job. I had to ...m I could sharpen their ...tter than they could. And ...e was my claim that I used ...

...ing them took some market... ...howmanship. I charged $2 a ... I guaranteed that an unsat... ...tomer didn't have to pay. ...finished with a knife, I ...w the new edge would slice ...ut of a sheet of paper or ...s cleanly off a man's arm. ...ase, but I soon found my ...was written up in a national ... would get orders from out... ...happened. Then I discovered ...t know my company were ...m the readers of the maga... ...street address.

...n that opportunity, another ...elevision station interviewed ...arance created a lot of inter... ...est in my company, but, again, I didn't reap the rewards. At about that time, a mixup with the telephone company over my new number apparently caused many callers to think I had gone out of business. It took me weeks to find out what was going on.

Although I worked hard and did all I could to make my business succeed, events out of my control caused problems. Despite these problems, business keeps expanding. I have had some orders from outside this area, and I hope to get more. After what this business has been through, I don't have any worries or doubts. I know that a knife-sharpening business based on cardboard is a great idea. NB

Karen Smith is the founder and president of Blade Works Products Inc., in Sedro Woolley, Wash.

Readers are invited to contribute to Entrepreneur's Notebook, a forum in which owners and/or managers of smaller to medium-sized businesses discuss their experiences. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

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What Bosses Really Think Of Their New Recruits

Many new managers and professionals enter their first jobs poorly prepared to succeed in business, according to a poll of top executives.

Nearly half of the 503 business leaders surveyed by Opinion Research Corp., in Princeton, N.J., said they believe new hires are unable to deal effectively with other people. Even more

may be getting some relief.

At least 39 states in the past three years have enacted significant legislation to help restore "fairness, balance, and predictability" to the civil-justice system, according to a report by the American Tort Reform Association, in Washington.

In 1988 alone, 15 states enacted "good, meaningful tort-reform legislation," said Blair Childs, executive director of the association, a bipartisan coalition of more than 400 small-business, corporate, professional, nonprofit, and other organizations. "We expect 28 states to address tort-reform legislation during 1989."

Childs said the most frequently debated issues this year will be punitive damages, caps on noneconomic damages, reduction of attorneys' fees, abolition of joint and several liability, product liability, and medical-malpractice legislation.

Childs predicted multiple benefits for business as more states modify or repeal civil-liability laws. "By making the legal system more predictable, people can make business decisions that are more intelligent, less expensive, and less time-consuming," he added. "Insurance rates should become more predictable. And you will not have the same chilling effect on innovation that is occurring in this country now. . . .

Up to six awards, including two earmarked for small businesses, are made annually.

The winners of last year's awards were Motorola Inc., Schaumburg, Ill.; the Commercial Nuclear Fuel Division of Westinghouse Electric Corp., Columbia, S.C.; and Globe Metallurgical Inc., Beverly, Ohio.

The deadline for applications is May 5, 1989.

ENTREPRENEUR'S NOTEBOOK

Cutting Through Start-Up Problems

By Karen Smith

If you run a small business, you know that you will encounter a lot of problems, some of them so serious that you might wonder whether you can survive them. But problems can have a plus side, too, because if your business is strong enough to overcome them, you know you are on the right track.

Based on this test, I know I have a winner in what I'm doing.

One challenge I have to overcome continually is convincing people I'm serious when I tell them the nature of my business—sharpening knives with cardboard. Yes, cardboard. The kind on the back of a writing pad.

When people think about knife-sharpening tools, they think about grinding wheels and stone and metal. So they think it's funny when I tell them that I can do a better job with cardboard. My sharpening wheels are made of round layers of cardboard held together with a special glue.

I have a shop in my home where customers drop off their knives and scissors, and I also go to restaurants, fish companies, and other businesses to sharpen their cutting tools.

In addition, I train people and sell them the equipment to get into the sharpening business on their own.

I got into this business in 1982 when my father, who had taken up knife making as a hobby, was looking for a better way to sharpen and shape blades. He didn't like the available high-speed equipment because it built up too much heat, which caused the knives to lose some of their edge and resiliency. Also, the available equipment made the job of sharpening knives by hand too slow; work on some blades could take days or even weeks.

I had been a trainer at health spas and a housewife when my father asked me to help him work out the sharpening problem. We tried dozens of products before we settled on cardboard. Our first wheels were extremely crude. We kept refining them, and we developed two versions, one for shaping knives and one for sharpening. We also made two liquid compounds, a coolant for the shaping process and a polish.

So many people were interested in what we were doing that we went commercial. From our home in Skiatook, Okla., near Tulsa, we traveled through the Midwest, attending trade shows—such as gun owners' conventions—likely to attract people with knives. We also sold kits of wheels and polish to people who wanted to do their own sharpening.



Farmers and ranchers I looked to for business came from a pioneer tradition in which you did things yourself. You certainly didn't pay somebody else to sharpen your knives.

Business was terrific. It was too terrific. We couldn't keep up with orders without getting into mass production, a marketing system, and all the other demands of business. Our expenses grew higher and higher. We took on some business partners who were willing to finance an expansion, but they wanted us to organize and conduct the business by rules that we didn't think suitable. The investors turned the business back to my father, who had decided he didn't want to continue it. In 1984, I moved to Washington state, where many of my relatives live. The area's economy wasn't thriving, and I had trouble finding a job that I wanted. So I revived Blade Works, my knife-sharpening business.

It wasn't easy. First, many of the farmers and ranchers I looked to for business came from a pioneer tradition in which you did things yourself. You certainly didn't pay somebody else to sharpen your knives, especially your prized knives for hunting and fishing. Second, you didn't hire a woman to do a man's job. I had to show them I could sharpen their knives better than they could. And third, there was my claim that I used cardboard.

Convincing them took some marketing and showmanship. I charged $2 a knife, and I guaranteed that an unsatisfied customer didn't have to pay. When I finished with a knife, I showed how the new edge would slice a circle out of a sheet of paper or shave hairs cleanly off a man's arm.

I was building a customer base, but I soon found my problems weren't over. After I was written up in a national business publication, I figured I would get orders from outside my own area. But nothing happened. Then I discovered that postal workers who didn't know my company were returning to senders the mail from the readers of the magazine article—because it lacked a street address.

While I largely missed out on that opportunity, another one came along when a Seattle television station interviewed me about my business. My appearance created a lot of interest in my company, but, again, I didn't reap the rewards. At about that time, a mixup with the telephone company over my new number apparently caused many callers to think I had gone out of business. It took me weeks to find out what was going on.

Although I worked hard and did all I could to make my business succeed, events out of my control caused problems. Despite these problems, business keeps expanding. I have had some orders from outside this area, and I hope to get more. After what this business has been through, I don't have any worries or doubts. I know that a knife-sharpening business based on cardboard is a great idea. NB

Karen Smith is the founder and president of Blade Works Products Inc., in Sedro Woolley, Wash.

Readers are invited to contribute to Entrepreneur's Notebook, a forum in which owners and/or managers of smaller to medium-sized businesses discuss their experiences. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

Women In Business

Here are glimpses of life at home for the families of entrepreneurial women and some successful strategies of women bosses.

Wife, Mother, Entrepreneur

By Sharon Nelton

What's it like to live with or work for a woman entrepreneur?

Washington-area members of the National Association of Women Business Owners decided to find out. They assembled a panel of husbands, children, and one employee to answer that question at a recent reception for women entrepreneurs at the U.S. Chamber of Commerce. Though they must chauffeur their children and cook meals more often than they might like, the spouses said the benefits of being married to a woman entrepreneur outweighed the disadvantages.

Larry Sharp is the husband of Marcia Sharp, a founder of Hager Sharp & Abramson, an advertising and public-relations firm. "When I pick up a national magazine and see an ad that I know her firm has put together and placed, that gives me a sense of pride," he says. "When I see a client of hers on television, I take a lot of pride in that, and I think the kids do, too."

The men admitted that conversation at home is more likely to center on the wives' work than on the husbands'. "In our case, that's true—in part because while I enjoy my work, it's not as exciting as being a public-relations executive," said Eric Hager, husband of Marcia Sharp's partner, Susan Hager.

Both husbands, who are attorneys, said they steer clear of giving business advice to their wives. "I don't know enough about her business to tell her what to do," said Larry Sharp. "And if I tell her what to do, it's probably going to be wrong, and she's going to know it right away. I try to mind my own business."

Nine years ago, when his mother, Kathleen Diamond, started a company called Language Learning Enterprises, David Diamond was 6 years old. "I could not think of my mother as a woman entrepreneur," he recalled. "She was my mother."

The business, which had revenues of nearly $600,000 last year, provides foreign-language training, translating, and interpreting services. Kathleen Diamond has three full-time and 50 part-time employees.



PHOTO: T. MICHAEL KEZA

When Mom brings office work home, they have to be quieter, say A. Jay and David Diamond, right. Otherwise, having an entrepreneur for a mother isn't much of a hassle. Kathleen Diamond founded Language Learning Enterprises, in Washington, D.C.

"Now that I know what her company does and I've been to her office, I have a lot more respect for her," said David Diamond. Asked if there was anything that drove him crazy "because your mom is a boss," David's brother, A. Jay, 13, said no, but that if his mother is working at her desk at home, she'll make the boys turn the television "way down . . . and that aggravates me a little bit."

To obtain the employee perspective, Anne Cowan, who works for Susan Peterson Productions Inc., a media consulting firm, queried friends who work for women entrepreneurs, asking them about their bosses. She found two personality types. One was the "Harried Hannah" who races down the street "with her hair flying, her purse behind her, and her coat flapping in the wind, and we're behind her with everything else that she might need to get through that day or that meeting." And the other personality was "Tightfisted Tess," who, said Cowan, is "not quick to part with a buck."

Employees find that their entrepreneurial women bosses attack every problem with relentless energy, Cowan said. "They're 'on' 24 hours a day, and we sort of all follow behind and try to keep up."

Perhaps surprisingly, women bosses may be less sympathetic than men toward an employee with a child-care problem. "There is that sense of 'I dealt with it; you deal with it,' " said Cowan.

On the plus side, Cowan said, "I personally have found I take much greater risks working for a woman. I'm much freer to make mistakes, to take chances, to be innovative."

Young A. Jay Diamond offered some thoughts for other children whose mothers are entrepreneurs. When his mother was still running her business from their home, he said, there were times when she was on the phone and too busy to talk to him.

"I'd slip her a little note asking, 'Can I go to my friend's house?' " The note would include a "yes" and a "no," and "she'd circle a little yes to get me out of there." Any son or daughter of an entrepreneur can be similarly creative, he suggested.

And brother David had a word of advice for the men in the audience: "If you're a husband of an entrepreneur, get my father's chili recipe. My dad makes up a huge batch, and it lasts for weeks. It's great every time."

"What my little company needs is the kind of computer only a big company can afford."



Women Managers: A Certain Style

By Joan C. Johnson



PHOTO: ©STEVE JENNINGS—PICTURE GROUP

Tulsa truck dealer Theo Schwartzkopf has little patience with people who say men won't take direction or criticism from a woman. Both sexes respond well when a female boss is constructive, she says. "Then they can walk away feeling pretty good about themselves and the situation."

Though the number of women who own or manage businesses continues to grow, it's still possible to hear others express attitudes such as, "I wouldn't want to work for a woman," or, "Men just won't take orders from a woman." So how do female bosses meet this challenge?

"You do your homework," says Sharon Bowlus, international transportation manager for the Automotive Aftermarket Division of TRW Inc., in Cleveland. She says that 15 years ago, when she became one of the first women in her company to move into management in the traditionally male field of traffic and transportation, her style of "making requests and saying please and thank you" was mistaken for weakness by some of the truck drivers she supervised.

"As a woman, I had to prove I knew my stuff and that I wasn't going to be walked over," Bowlus says. "It was a lot like taking your car into a repair shop. If they think you don't know what you're talking about, they'll try to buffalo you."

Although she says such attitudes are less a problem today, she counsels women managers to take the time to understand the situations in which they are working. "I read a lot. I listen. I pay attention, and I'm not afraid to ask questions."

Bowlus also says that "how you talk to employees, how you phrase things" is important. She recommends that women bosses take classes in management and organizational dynamics to learn how to evaluate their own styles and to deal effectively with employees and other managers. "I don't give orders. I try to work with people," she says. "And I still say please and thank you."

"Most good managers today don't give orders," says Marsha Congdon, Oregon chief executive officer of U S West Communications. "They ask advice of the people who are actually going to be out there doing the job. It's a more consultative style.

"Ultimately, of course, the manager makes the decision and takes responsibility for it," Congdon continues. But she points out that most of today's employees want to be involved in the decision making, no matter what their sex or where they are in the organization. "Managers who don't recognize that and who manage in the old militaristic way will not be as successful."

Theo Schwartzkopf doesn't believe in giving orders either. President of her own truck dealership, Mid-America Ford Truck Sales in Tulsa, Okla., she stresses the importance of communicating clearly.

"Most people want to do their job, and they want to do it right, but they need a clear picture of what needs to be done," she says. "No one wants someone coming to them and saying, 'You've messed up.' "

Schwartzkopf has little patience with those who say men won't take direction or criticism from a woman. "I've found guys are the same as gals. We can all handle criticism if it's done constructively," she says. "But you must be constructive. You talk it over. You suggest ways to improve a situation and let them know you know they can do better. Then they can walk away feeling pretty good about themselves and the situation."

All three women agree that good management means doing your homework, listening to your employees, and seeking to involve and motivate them rather than issuing orders. Gender really has nothing to do with it. NB

Joan C. Johnson is a free-lance writer in Beaverton, Ore.

Leadership Seminar For Women

"Development for Women as Leaders" is the subject of a seminar for women executives that will be conducted four times in the coming months by the Center for Creative Leadership in Greensboro, N.C. The four-day training program is aimed at helping managerial women examine their developmental needs and integrate successful careers into meaningful personal lives.

A text for the workshop is *Breaking the Glass Ceiling: Can Women Reach the Top of America's Largest Corporations?* (Addison-Wesley, Reading, Mass.). Two of the book's authors, Ann M. Morrison and Randall P. White, are on the workshop staff.

Dates for the program are Apr. 17-20, June 26-29, Aug. 21-24, and Nov. 13-16. For more information, contact Charlene Dillinger at the Center for Creative Leadership, 5000 Laurinda Drive, P.O. Box P-1, Greensboro, N.C. 27402-1660; (919) 288-7210.

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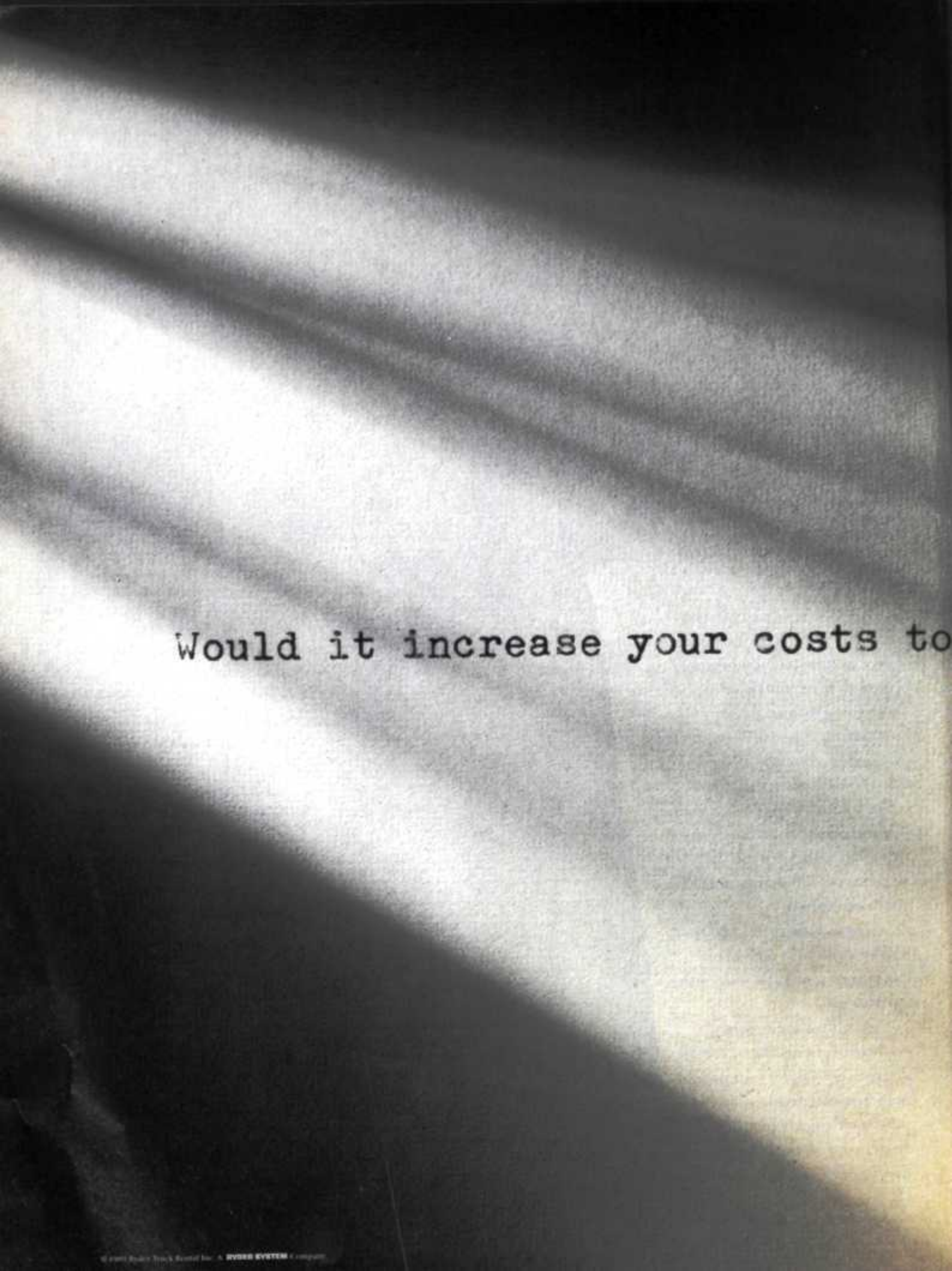
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COVER STORY

Would You Hire Them?

Young people lacking the education and skills for today's jobs pose a major national problem. Here is how businesses of all sizes can take a lead role in corrective action.

By Nancy Croft Baker

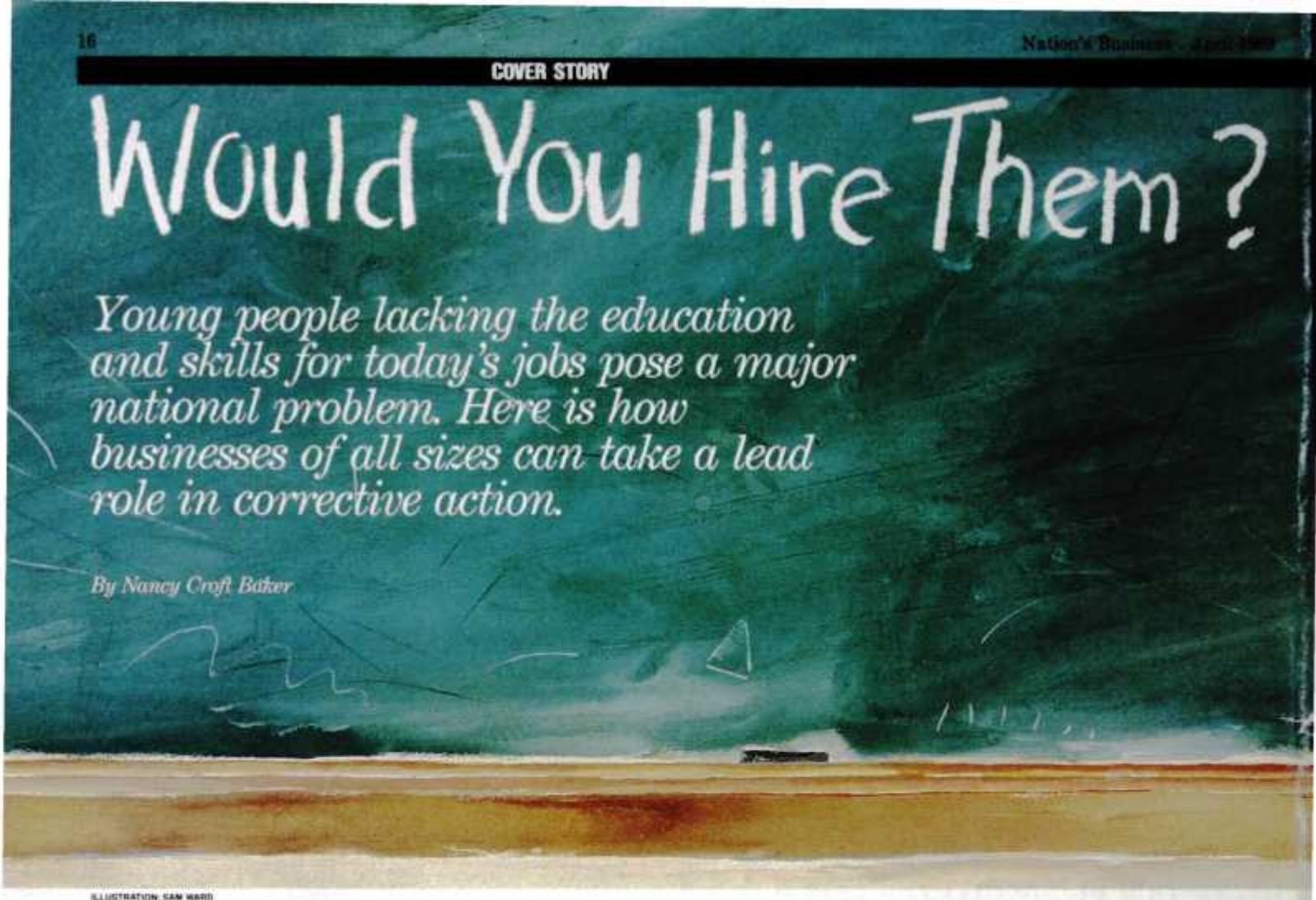


ILLUSTRATION: SAM WARD

Sam Williams, owner of a McDonald's franchise, is one of the many business people in Baton Rouge, La., participating in a program designed to show high-school students the critical link between their education and their job prospects.

One of the students who heard him was Lynda Stansell, a 15-year-old sophomore who was failing and about to drop out. But what she heard from Williams about employer expectations and the opportunities available to young people with the education and skills needed in today's marketplace changed her mind.

Today, she has a B average, will soon be working part time under the business program for the schools, and is getting ready to take college-entrance exams. "Business people come in to talk to us, and I'm learning a lot more because of it," Stansell says.

The Baton Rouge program's business participants represent a variety of industries. John Everett, a Holiday Inn manager, discusses careers in hotel management. Bobby Smith, owner of a building company, describes the construction industry and the skills needed to enter it. Michael Gramelspacher, manager of a Woolworth store, and Mickey Weaver, who owns a seafood restaurant, explain what they expect new employees to bring to their firms. Maxine Crump, a local television correspondent, conducts workshops to show the young women students how to improve their self-images.

That program represents just one of the many ways in which business people throughout the country are taking on one of the most serious problems facing the nation today—an educational system unable to produce students equipped for challenges ranging from entry-level jobs to maintaining the U.S. position in an increasingly competitive world.

Meeting those challenges, the experts point out, must begin with the realization that an "educational system" consists of not only schools and teachers but also students, parents, and the entire community that depends on a well-educated population for its economic and social health.

The Business-Higher Education Forum, which brings together the chief executives of major U. S. corporations, colleges, and universities, says a key goal of education at all levels should be equipping "all of our young people to enter adult life with the basic education and skills essential in the modern world."

The organization, based in Washington, D.C., says that success in achieving that and other education goals "ultimately depends on the sustained individual and joint efforts of teachers, students, and parents, of managers and workers, of business executives and labor leaders, and on the encouragement of the private sector."

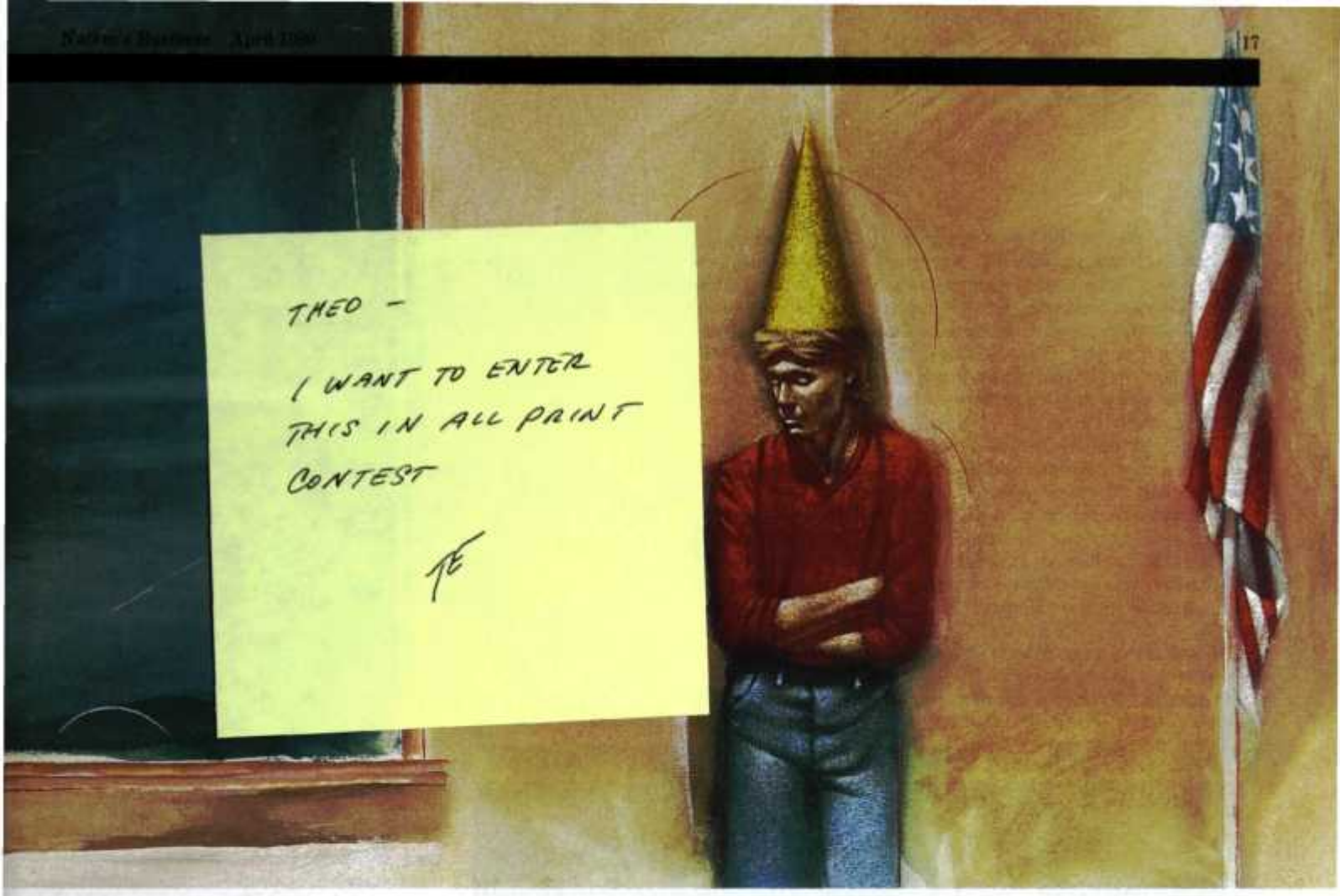
The role of parents is particularly important. The Educational Testing Service of Princeton, N.J., which analyzes trends in educational achievement, has found "consistent relationships between home support and academic achievement."

The education organization says in its latest report, *Crossroads in American Education*, "The more encouragement and resources provided at home, the more likely students are to do well in school."

It adds: "Children are more likely to be successful learners if their parents or care-givers display an interest in what they are learning, provide access to learning materials, and serve as role models."

At the same time, there is much that business can do to help achieve educational goals, and activities include local volunteer programs like that in Baton Rouge, as well as undertakings such as the Business-Higher Education Forum.

However individualistic or highly organized the approach, the stimulus for the business initiatives is the realization that American education is seriously in need of help. There have been



tests upon tests, surveys upon surveys, and they all have produced the same findings.

"The frightening truth is that even though our nation spends $185 billion annually on public education, we're turning out a bumper crop of functional illiterates," says John L. Clendenin, chairman of BellSouth Corp. and a leader in the business drive to improve American education. Some other findings of various analyses of the U.S. school system:

- Three out of four U.S. students leaving school are not ready for the basic problem-solving demands of work or college, according to the National Academy of Sciences.
- The dropout rate in public high schools averages 25 percent across the country and ranges to 50 percent in some inner-city areas.
- In a recent test of the mathematics and science proficiency of 13-year-olds in this country, the United Kingdom, Ireland, South Korea, Spain, and four Canadian provinces, American students finished last in math and near the bottom in science. South Korea was first in math and second to British Columbia—by a razor-thin margin—in science.

The American students did rank highest in one category: the amount of time spent watching television.

- The Business-Higher Education Forum says that earning a high-school diploma today "no longer guarantees literacy, numeracy, or competence in the basic skills required to contribute as a citizen, family member, or worker. Too often it is little more than a certificate of attendance."
- The Educational Testing Service says the nation's youth have reached "a minimum standard of literacy—they generally have mastered rudimentary reading and writing skills and some fundamental knowledge of mathematics and science. [But] very few of our young people can use their knowledge and skills for thoughtful or problem-solving purposes, and not many can reason at higher levels."

Two other key factors must be considered for a proper appreciation of the state of American education: One is the shrinkage of the pool of young workers as the baby-boom generation heads into middle age. The other is the changing nature of the workplace, which has less demand for unskilled workers and more demand for employees with technological skills and knowledge.

Says John Clendenin of BellSouth on today's job market: "Things have changed. Jobs have changed. Sweat and good hands aren't enough any more."

In addition to the tragic impact on individuals lacking the skills for employment, Clendenin says, educational failure exacts a heavy price from society at large: "Each year's crop of American dropouts costs this country an estimated $240 billion of lost earnings and taxes over their lifetimes. . . . At an economic level, educational failure hurts our collective wallet. It drains money from us as individuals and as citizens of collective enterprises. And perhaps most disturbing for the long term, at a dangerously deep social level, educational failure threatens to polarize our nation and to tear apart our society's whole cloth."

Those and other penalties of nationwide shortcomings in education are stimulating extensive business activity to improve the nation's schools. Linus Wright, a former undersecretary of education and now with a Dallas executive-recruiting firm specializing in the education field, says that business is especially qualified to help improve education: "Business people have had to get involved in education out of necessity. They are the best-qualified observers and evaluators, and they have the best-trained staffs for problem solving. They must [help] structure a system that's built on performance results."

Investments that improve the educa-

tional system could be among the most rewarding ever made by American businesses. Business is now spending $30 billion a year to teach workers skills that they failed to acquire in their school years, and it costs about four times more to provide that education in remedial programs than it would have cost originally.

The Business-Higher Education Forum declares: "We can no longer afford to educate so many people twice because we fail to 'do it right the first time.'"

The Baton Rouge experience spotlights just one way that business is responding to that challenge. The business community there recognized the extent to which high drop-out rates and low educational achievement were hampering economic growth. "You can't do any legitimate economic development until the education arena is more competitive," says Harold Suire, who heads an education task force for the Baton Rouge Chamber of Commerce.

With guidance from the local school board, the chamber formed Northdale Magnet Academy, using donations from businesses, a foundation grant, and federal funds.

"We were no longer willing to be observers and critics," says Suire. "We were going to be participants and help with the solution." Students at Northdale not only must fulfill traditional course requirements in English, mathematics, science, and social studies but also must hold part-time jobs and attend a series of career-development seminars before they can graduate.

Businesses participating in the program provide entry-level jobs for Northdale's juniors and seniors, evaluate their work, and meet with their academic teachers to suggest ways to improve students' skills in areas such as writing, work habits, handling money, paperwork, and interpersonal skills.

While Baton Rouge's actions evolved from recognition of the close tie between economic growth and educational quality, the stimulus for improvement can take different forms. In Clay County, Tenn., for example, leaders in business and other fields were jolted when their third-graders finished last in competency tests for that grade level in a 14-county region.

Aroused county residents rallied behind teachers with a program to assure that all third-grade students would meet academic proficiency standards set for their level. This was an ambitious goal for an area with extensive, chronic poverty and a high adult-illiteracy rate.

The community's answer was a summer teaching program. Business people pitched in, providing money for books and teachers' salaries and for extras such as an air conditioner. Clay County third-graders finished third in regional competition last year.

While local action is essential for dealing with education's problems, many corrective efforts begin at the state level. One of the early debates took place in South Carolina, where a bipartisan business coalition provided crucial support in 1983 for Gov. Richard W. Riley's ambitious $210-million program to raise the quality of instruction and learning in that state's public schools.

The plan, described at the time as "a bold leap forward in public education," called for tougher standards for students and teachers, a pay raise for teachers, and a commitment to build more schools.

Although controversial because of its inclusion of a 1-cent increase in the sales tax, the plan ultimately gained wide public acceptance and was passed by the legislature.

Today, even critics of the plan's tax feature recognize its success. Since

Nanette Noland of Baton Rouge, La., is surrounded by appreciative students at Audubon Elementary School, which her firm, Mundus Travel, and some other small businesses "adopted." She has donated vacations to teachers and equipment to the school, and she has been a guest teacher herself.

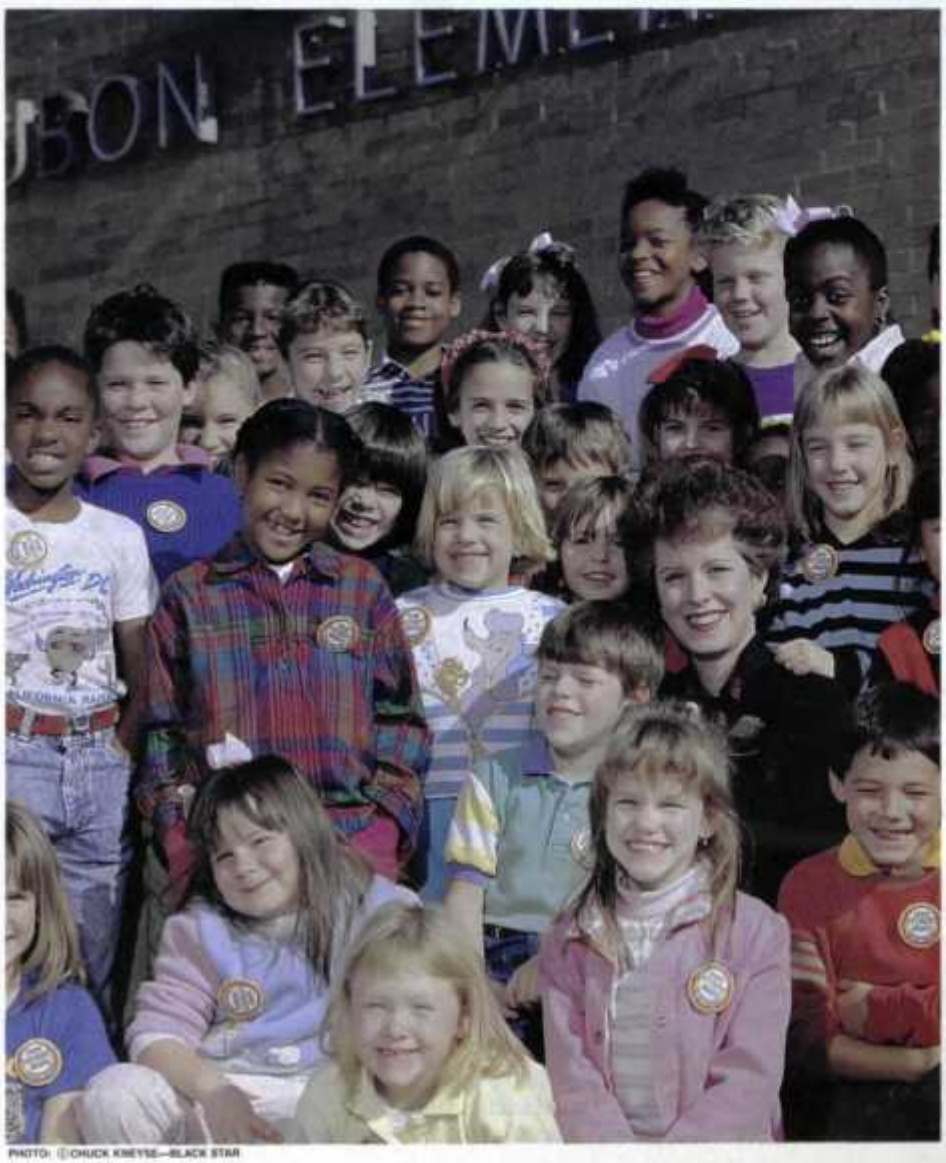


PHOTO: © CHUCK KNEYSE—BLACK STAR

1983, average scores of students taking the Scholastic Aptitude Test (SAT) have risen by 40 points, far more students meet basic educational skills, and the percentage of high-school students going to college has reached its highest level ever.

Many other states have made education a priority concern, and in every instance, business people have assumed major roles in carrying out the reforms. Often, companies and individual business people are involved directly in efforts to improve educational quality, and some of the things they are doing might offer ideas to others.

Pizza Hut's BOOK IT! program, for example, offers a free pizza to students who read a specified number of books within a month. Last year, more than 14 million children participated in the program. Participating Pizza Huts work directly with individual schools and send progress reports to the company's home office.

Local businesses in such grass-roots efforts have advantages that enable them to have a direct and immediate impact. They are close to the problem and equipped to decide firsthand what must be done and to evaluate the effectiveness of corrective action.

Here are some of the steps through which smaller firms and their owners, managers, and employees can participate in the growing national effort to improve the quality of education:

Help individual students. In various ways, employers can help assure that individuals receive the education and training they need for today's jobs. One of the fastest-growing routes is the ConSern Program, sponsored by the U.S. Chamber of Commerce for its member companies and organizations. Employees and children of employees of the members are eligible for low-cost loans for education, which includes but is not limited to college. Details are available from the ConSern Program, c/o Membership Department, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062.

Adopt a school. This is one of the most common forms of business participation. Small businesses can act individually or pool their resources to support an individual school. Arrangements usually are made through a local chamber of commerce or a regional or state committee coordinating such programs.

After the business and school have been paired, the business people meet with teachers and administrators to determine how they can best assist the school. Activities agreed upon usually include the furnishing of equipment, recognition of outstanding teachers and students, classroom appearances by business people, and assistance in raising funds.

In Baton Rouge, for example, travel-agency owner Nanette Noland is one of the sponsors of an elementary school. She has arranged for free Florida vacations for teachers with perfect attendance, lectured about the travel industry, and arranged tours of her offices.

Noland says: "It's difficult for small businesses to participate sometimes, because you don't have the resources that the big businesses have. But the adopt-a-school program gives us the opportunity for every business person to participate in a different way. Whether you have money to give or time to give or a particular talent to give, all of it is welcome because the schools here are extremely needy."

Sponsor a tutor. Shortly after Bill Dawson opened a Round Table Pizza franchise in Madera, Calif., he was asked to be a sponsor of a local program in which bright high-school students are recruited to tutor elementary-school children already showing signs that they will drop out of school.

Dawson's resources were limited, but he found a way to donate $50 a month to the Madera Linkage Foundation, a nonprofit group formed to improve local public education.

Each of the 20 tutors is on the payroll of a business, although the tutors do

"Compact" Lessons

Business-education partnerships can produce dramatic results when both parties are committed to the same goals and constantly monitor their joint progress. But the best-laid plans can go awry when communication between partners breaks down.

The Boston Compact, launched in 1983, was touted as the solution to the city's related problems of labor shortages and a high drop-out rate in the schools. Business agreed to contribute its expertise to classroom instruction, provide financial aid for college-bound students, and guarantee jobs for students and graduates. The school system promised to lower the drop-out rate, improve attendance, raise test scores, increase college-placement rates, and graduate students with a solid grasp of academic fundamentals. Local universities, forming the third party in the compact, agreed to provide career counseling and scholarships.

While there have been measurable improvements in attendance, test scores, college enrollment, and the drop-out rate, the business community last fall decided not to renew its end of the compact. Tom O'Reilly, president of the Boston School Committee and assistant vice president of corporate banking at State Street Bank, says a major reason for the decision was a clash with the school superintendent, who has been resistant to business' presence in the classroom. Another reason was realization that poor communication had left each party unaware of the resources offered by the others.

Participants are re-evaluating their goals and the approaches they will use. Boston's experience, says O'Reilly, serves as an example to other communities that wish to form similar partnerships. He offers this advice for participants in community efforts to improve the quality of education:

- Set the goals but don't get stuck on them. Be willing to re-evaluate and adjust.
- Businesses must realize that although they concentrate resources on the best-performing areas, schools generally invest their resources in improving areas of worst performance.
- Businesses should be aware also that schools doing a good job are not guaranteed increased revenues, because tax bases change, budgets are tightened, and population shifts affect enrollment.
- Open and frequent communication is crucial to the success of any business-education arrangement. The component groups should meet regularly and follow up with progress reports.
- Schools face a dilemma resulting from their inability to provide the social-service support that many pupils need in order to overcome problems that hamper their ability to learn. Compacts should work closely with social-service agencies to find solutions.

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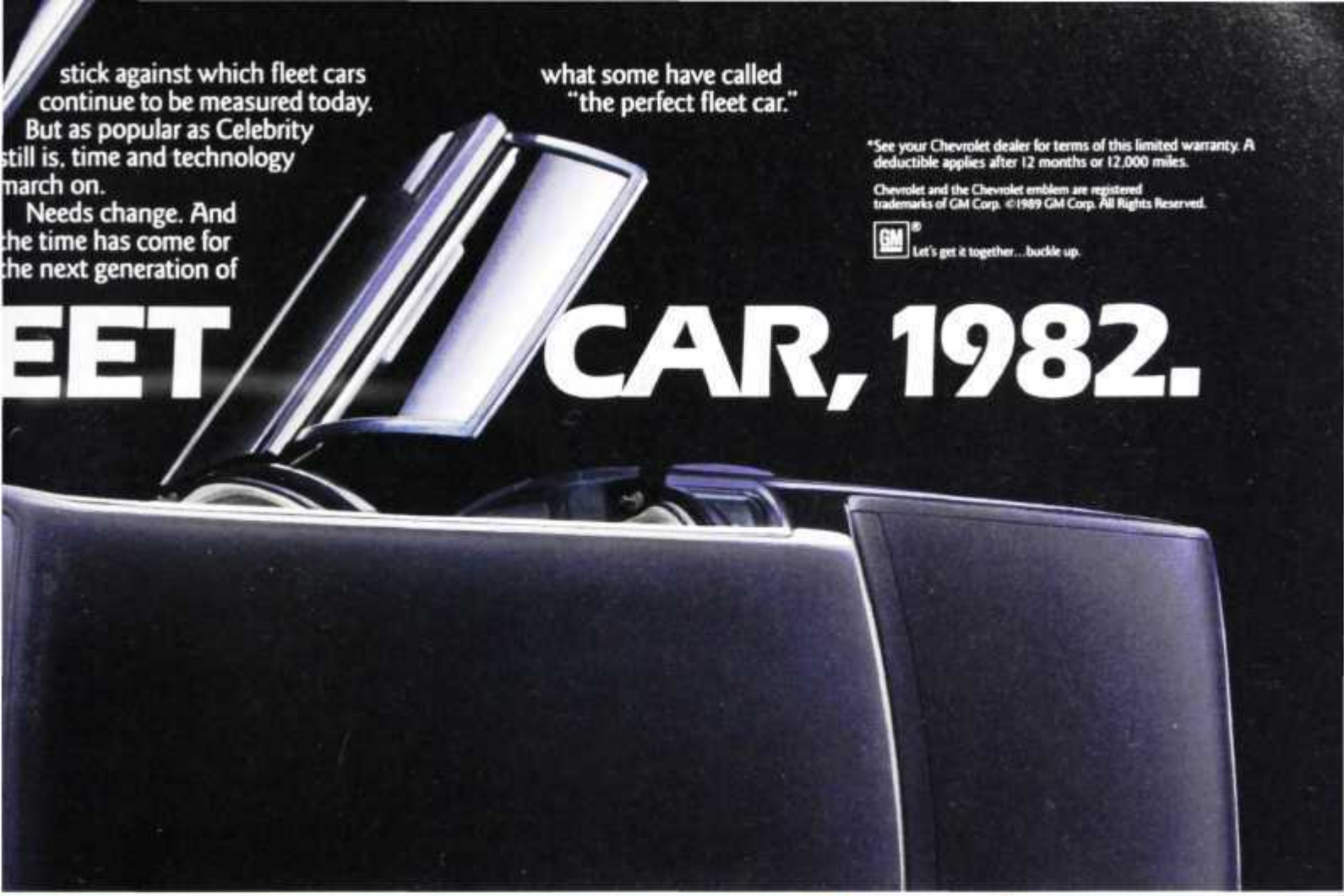
what some have called "the perfect fleet car."

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Would You Hire Them?

Tutors for potential school dropouts in Madera, Calif., meet monthly at Round Table Pizza as the guests of owner Bill Dawson, standing at rear. Though his finances were tight, he found a way to give $50 a month when he was asked to help out with the tutoring program. Its results so impressed him that he agreed to become its chairman.



PHOTO: ©CHARLES MOORE—BLACK STAR

not work on the premises. A tutor works three hours a week at minimum wage, which comes out to $400 for the school year.

Madera has a large population of agricultural workers and a high drop-out rate. Most of the tutors themselves are members of minority groups and serve not only as part-time educators but also as role models. They write progress reports on their students, and an administrator checks their performances as tutors. Each business sponsor receives copies of these reports.

Dawson has since become chairman of the entire tutorial program for Madera. He holds rap sessions once a month in his restaurant, serving pizzas and soft drinks while the tutors share their experiences as a way of helping each other. "Even though I'm not in a high-tech business, I feel that if you can't keep kids in school, the probability [that] they will be worth a hoot as employees is slim," Dawson says.

Be an instructor. Business people have extensive experience, knowledge, and skills of direct value to students, and in-class instruction represents one area in which business can make important contributions at no or little direct cost. Business owners and managers can participate themselves or make it possible for employees to do so.

John Schwenkler, a senior systems analyst at the Montvale, N.J., headquarters of the Great Atlantic & Pacific Tea Co., spends two hours every Friday morning teaching a basic computer course at the elementary school of St. Patrick's Roman Catholic Church in the heart of an economically deprived area. All of its 500 students are black, and most come from low-income families.

"The teachers at St. Patrick's were so excited that somebody could finally make use of the resources," says Schwenkler, who volunteered for the teaching assignment through an outreach program in his own church. His employer lets him make up the Friday morning hours by working evenings.

Donate equipment. Excess inventory representing a loss to a business can be transformed into a welcome donation to a school. Barbara Fine, owner of The Map Store in Washington, D.C., donates maps, atlases, and globes as prizes for school competitions on geography. There are public-relations and tax advantages, but, Fine says, "The real payoff for us is getting kids excited about geography."

Establish trust funds and foundations. These organizations pool resources from the community and distribute them to schools and businesses. The Greater Milwaukee Education Trust raises money for grants ranging from $150 to $1,500 to be used for classroom projects, organizes mentor programs to help problem teens, matches businesses to schools wanting to be adopted, and pairs corporate managers with principals seeking advice on how to run their schools better.

The trust was formed as a result of business recognition of problems in the school system, says its partnership director, Michael Puzia. Personnel people "were tremendously surprised" by the lack of basic skills among students filling out job applications, he says.

He sees the trust as a way to "maximize the community's return on its investment" in education. "It will manage the programs more effectively, act as a clearinghouse, and track results."

Meet with school administrators. Business executives and managers in Eden Prairie, Minn., meet monthly with school administrators to discuss subjects such as effective recruiting, dealing with problem personnel, and budgeting.

"Business people have found that schools are starting to run more like businesses," says Marge Friederichs, director of the Eden Prairie Chamber of Commerce, which organizes the project to bring business people and administrators together. "And administrators, some of whom have never been in the business world, have learned about productivity and motivation."

Provide incentives for teachers and students. Recognition of new or outstanding teachers, awards for students' academic achievements, and assistance with fund-raising efforts for class or school projects are among the low-cost ways that businesses can help improve educational standards.

At Nicholson Elementary School in Baton Rouge, three local businesses keep a store stocked with goods that include school supplies, clothing, toys,

Continued on Page 26

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ABOVE AND BEYOND®

Lamar Alexander On Schools And Business



PHOTO: UNIVERSITY OF TENNESSEE

Lamar Alexander, president of the University of Tennessee and former governor of Tennessee, discussed business' role in education with Senior Editor Donald C. Bacon. Here are highlights of that conversation, presented in question-and-answer format.

Business should help schools set goals and measure progress, according to Lamar Alexander.

Mr. Alexander, what can business do to help improve the quality of America's schools?

What business men and women can bring to the better-schools movement is a structured way of solving problems. Passion is important. Educators have the knowledge; they're the experts. But management is what is too often missing.

The most critical skill that good leaders and managers have is helping people set clear goals for themselves, and developing report cards on whether they're meeting those goals.

I think if business men and women all over the country would do one thing—help schools and school districts set goals for themselves and then help them measure their progress—that would be the single most important contribution business could make.

What sort of goals for schools do you have in mind?

Different school districts will have different goals, and those goals won't be the only things they do. But what I hear from most businessmen is that they want people to have at least an eighth-grade education.

Now that offends some people, because this is America, and we're all supposed to be thinking higher than that. But an eighth-grade education—in case some people haven't checked lately—is a fairly significant set of skills.

If all Americans had an eighth-grade education today, we'd be leaving most of our worldwide competitors in the dust.

We would still need Nobel Prize winners and our large number of higher-educated people. But our most fundamental problem is with the bottom group—those who don't have eighth-grade skills.

The only way to see that everybody gets those skills is to set our goals and gradually build up.

We should say no matter what else we do, every child will have third-grade skills, then fourth-grade skills, then fifth-grade skills, right on up to eighth.

When you were governor, you set about improving schools with your Better Schools program. Did you get much business cooperation?

I got a lot. What I needed in terms of cooperation at the beginning was in breaking down the barriers. We were trying to set up a basic-skills program and pay teachers more for teaching well. There was a lot of resistance to that, especially from the National Education Association affiliate in Tennessee.

We formed a Tennesseans for Better Schools organization. Business raised about $400,000 to support it, mostly for TV ads to drum up legislative support for the changes and for the sales-tax increase to pay the bill. It helped that the state's biggest sales-tax payer, Hospital Corporation of America, publicly supported the increase.

Was that pretty representative of business generally?

Most businesses were willing to support more for excellence, not for more of the same.

Tennessee's Better Schools program has been in effect for several years now. What sort of results are you seeing?

We're beginning to see some very good results.

One illustration is that in 1985 the University of Tennessee said to all eighth-graders in the state: If you want to go to the University of Tennessee, you're going to have to know 13 subjects in high school, including two years of a foreign language, three years of math, and so forth. It substantially upped the requirements.

The new class coming to UT in the fall is the first class of freshmen who have had to meet these higher standards.

Here's what we're finding: The number of high-school students enrolled in Algebra 1 and 2 courses has increased 40 percent since 1985; the number taking advanced math is up 103 percent; the number taking natural-science courses has risen 51 percent. In that same period, total high-school enrollment in Tennessee increased only 3 percent.

Early applications for next fall's classes at UT show that 92 percent of the high-school students who are applying have completed those 13 requirements set forth in 1985.

What conclusions do you draw from the improved showing?

It just proves what everybody knows. The university, through its admissions process, set a higher standard that made sense, gave students ample warning, and they are apparently all [meeting] it.

What we think will happen is that they'll arrive at college better prepared, especially the minority students.

We're already making plans for the year 2000.



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John Schwenkler, a computer analyst at A&P's headquarters in Montvale, N.J., tutors students at St. Patrick's Catholic Elementary School on Friday mornings.

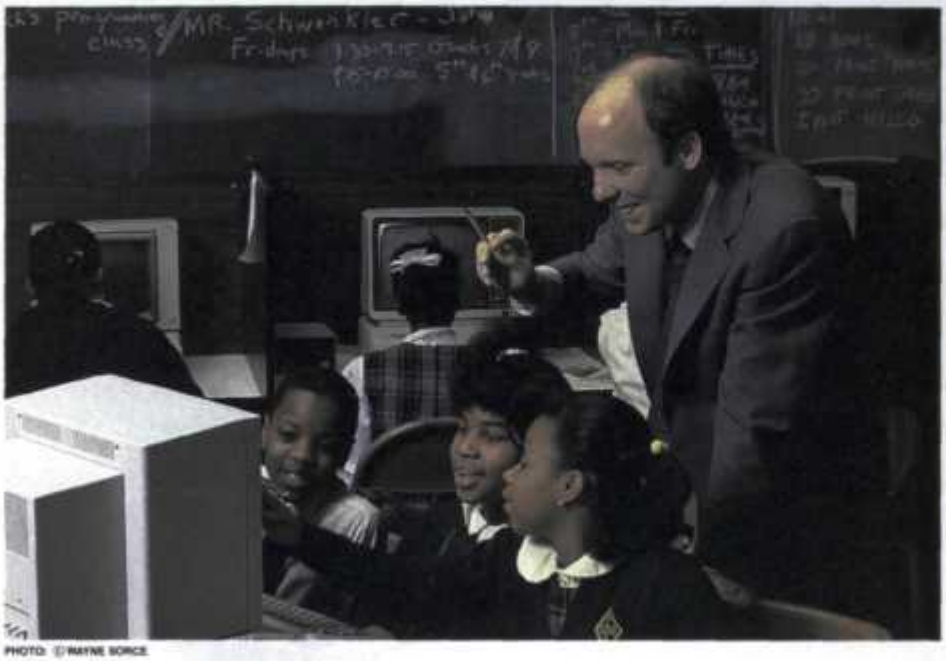


PHOTO: © WAYNE SORCE

Continued from Page 22

and bicycles. Those items can be purchased with tokens that students receive from teachers for good behavior. The merchandise is bought with money donated by the sponsoring businesses or obtained through their fund-raising efforts.

The companies' employees support the project by donating items and through activities such as searching out suitable contributions at yard sales.

"This school is in an extremely low economic area, which means it's low academically, also," says the principal at Nicholson, John Hooper. "These kids don't come to school to learn. They need immediate and tangible motivation to do well. And if they do well, they immediately get something for it."

While the tokens are not given for academic achievement, they have made an impact there.

Before the school-store project began, only one or two students a year made the honor roll. Nine weeks after the store opened, there were 18 honor students, and by year's end the total was up to 66.

The store project "has performed a miracle," Hooper says. "When you get [students'] attention and motivate them to want to learn, the academic performance is going to follow."

Encourage innovation. Many school districts are moving toward a competitive concept called site-based management, and businesses can help them.

In the site-based approach, schools operate like independent units. Principals have greater control over curricula than they normally do, and each school competes with other schools—within certain guidelines—to attract students. Parents may choose schools for their children, subject to restrictions designed to prevent racial segregation.

Like executives of a troubled business, officials of a school that fails to attract enough students to justify its cost must find ways to attract "customers," or they can lose their jobs. Business people attuned to competition can provide substantial assistance to officials running those schools.

Critics contend that site-based management relies excessively on competition, but many education experts say that improvements will come about only through such stiff tests of the ability of school systems and individual schools to meet today's challenges.

But the ultimate goal is much broader, and its dimensions indicate why the Business-Higher Education Forum says that responsibility for correcting the problems of American education must be widely shared by business people, educators, parents, religious leaders, the scientific community, and other professions.

The need for that broad participation is apparent from the terms in which the forum describes the challenge facing those seeking improvements in the nation's schools:

"We must abandon the pretense that an educational system designed for the 19th century can prepare our people for the 21st." NB

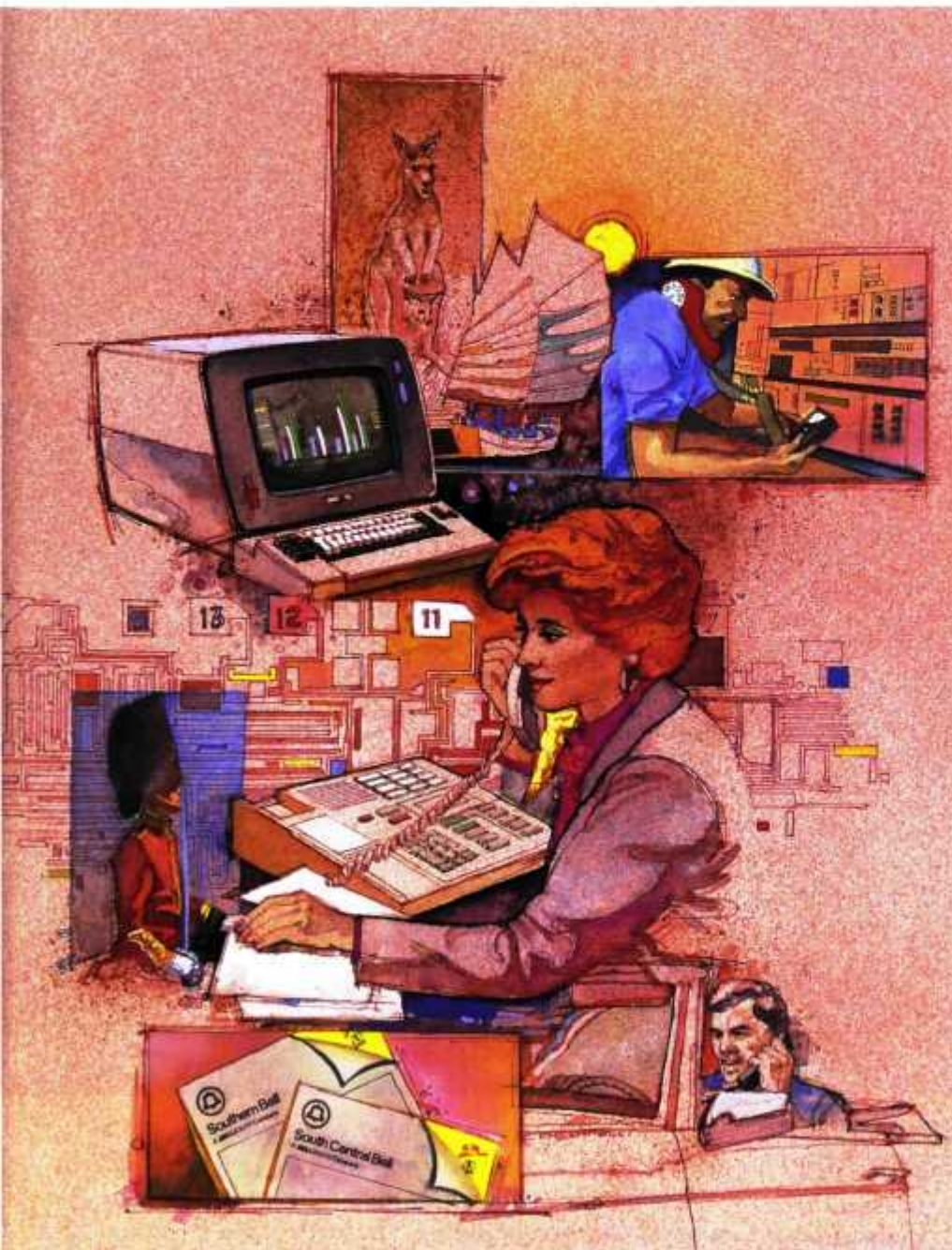
To order reprints of this article, see Page 80.

For More Information

Here are some additional resources that can supply more information about business-education partnerships:

- *School Partnerships Handbook: How to Set Up and Administer Programs with Business, Government, and Your Community*, by Susan D. Otterbourg, Prentice-Hall, Inc., Englewood Cliffs, N.J.
- *The Doable Dozen: A Checklist of Practical Ideas for School-Business Partnerships*, by Cynthia W. Shelton, National Community Education Association, 119 North Payne St., Alexandria, Va. 22314.
- *Partners for the 80s: Business and Education*, National Association of Partners in Education Inc., Suite 200, 601 Wythe St., Alexandria, Va. 22314.
- *School-Business Partnerships: Why Not? Laying the Foundation for Successful Programs*, by S.C. Ruffin, National Association of Secondary School Principals, 1904 Association Drive, Reston, Va. 22091.
- *Business & Education: Partners for the Future*, and *Making Education Our Business: The Role of Chambers of Commerce*, U.S. Chamber of Commerce, (Attn: Bob Martin, Employee Relations Policy Center), 1615 H Street, N.W., Washington, D.C. 20062.
- National Association of Partners in Education Inc., Suite 200, 601 Wythe St., Alexandria, Va. 22314.
- Office of Private Sector Initiatives, Office of the Secretary, U.S. Department of Education, 400 Maryland Ave., S.W., Washington, D.C. 20202.
- National Dropout Prevention Center, Clemson University, Clemson, S.C. 29634-5111; 1-800-443-6392.
- Educational Resources Information Center (ERIC), a division of the Office of Educational Research and Improvement of the U.S. Department of Education, Washington, D.C. 20208. ERIC can be used to gain access to educational databases, journals, and analyses.

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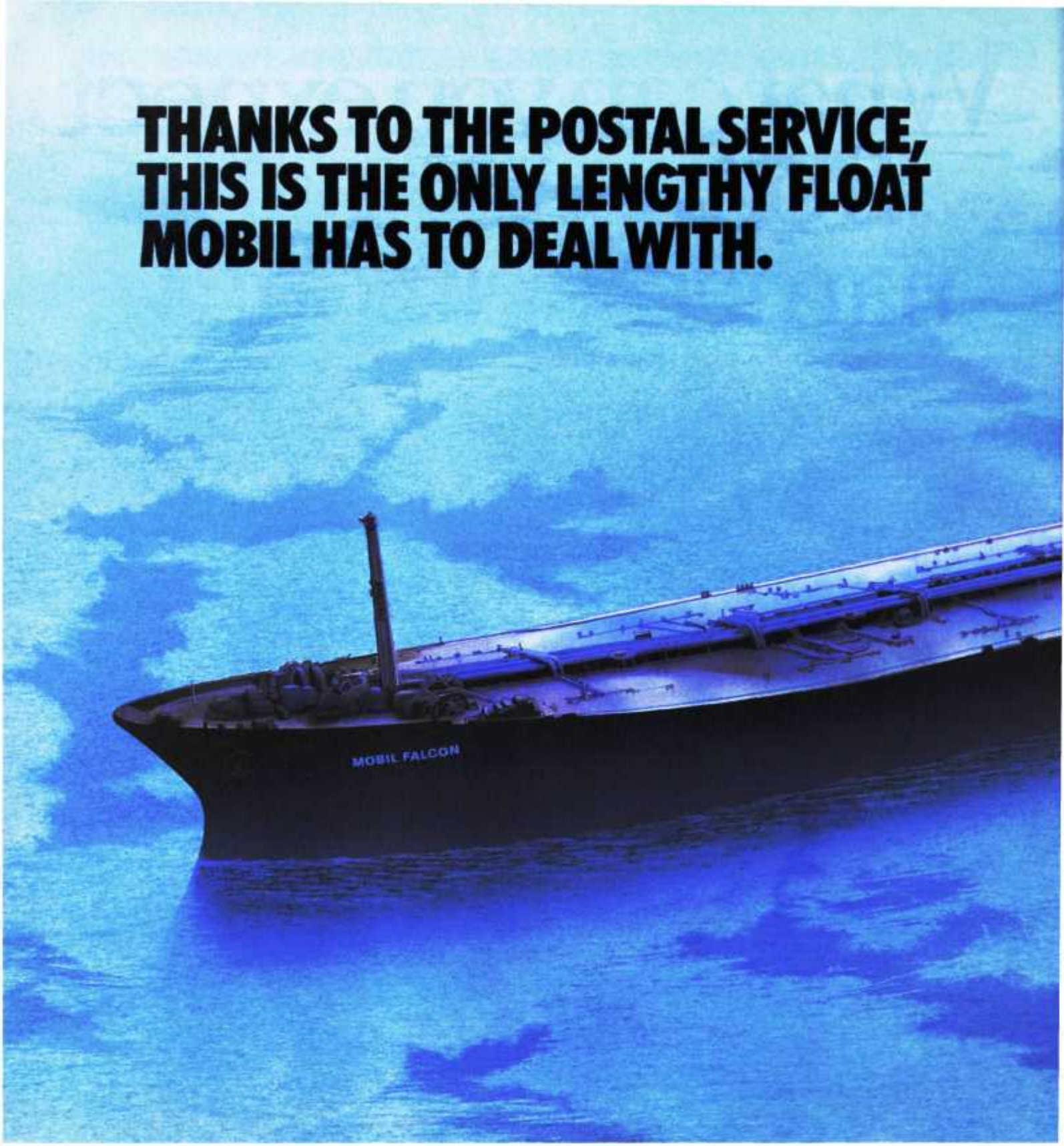
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Building Your Own Portfolio

Here are some rules of thumb for entrepreneurs who have the time and judgment to manage their own investments.

By Mark O'Brien



PHOTO: ©SAL DI MARCO—BLACK STAR

Health-care executive Wayne Lampman spends three hours each workday tending to his portfolio. He says that if you can make money in business, you can succeed in finance.

Wayne Lampman spends three hours every weekday morning in his King of Prussia, Pa., office sifting through business and stock-market performance data. Lampman, co-founder of Universal Health Services, a $775-million firm that owns and operates acute-care hospitals nationwide, has no formal financial education, and he has never worked on Wall Street. But he is one of many entrepreneurs who choose to direct their own investments in the belief that business and financial skills are transferable. "The market is the perfect enterprise, with profit and loss centers," says Lampman. "I analyze it the same way I have analyzed every business venture I've ever been in."

Operating a business and managing investments entail making decisions, delegating authority, accepting responsibilities, screening out irrelevant details, living with uncertainty, understanding risks, and, not least of all, exercising patience. So it is not surprising that those who excel in business often succeed in multiplying their profits by forgoing investment advisers and building their own portfolios.

The most difficult part of assembling a sound portfolio is learning how and where to start. Following are some rules of thumb for entrepreneurs who believe they have the time and judgment to manage their own investments.

Mark O'Brien is president of O'Brien Greene & Co., a Philadelphia investment-advisory firm.

The first step is to delegate safekeeping chores to one professional custodian. Spend your time on investment decisions, not chasing dividend checks.

What is a professional custodian? A custodian is a brokerage firm or a bank that holds your stock and bond certificates; insures them against loss, theft, and fraud; collects interest and dividend payments; tenders shares to meet merger/takeover deadlines; and prepares monthly statements showing what you own and how much it is worth.

Some people try to be their own custodians, and they request that stock certificates be sent to them upon purchase. It's an unnecessary headache, particularly when brokerage firms will provide free custody services in return for commission dollars.

Deal with only one brokerage firm and keep all your stocks and bonds with that firm. It is difficult to manage a portfolio spread among a number of brokers. Or, if you like to buy and sell from a lot of brokers, hire a bank to be custodian. You can save money this way if your assets are considerable—say, over $500,000. Although you must pay the bank a custody fee, you can shop among brokers for the lowest commissions.

The next step is to decide how you want to divide your wealth. Brokerage firms call this process asset allocation, and they charge hefty fees to do it for you. But dividing your money among stocks, bonds, and money-market funds is simple, and clearly you can do it yourself.

Begin by figuring out your "time horizon," the time when you will need the money. If you're not going to need the money for at least 10 years, go entirely into stocks. Why? For longer periods, stocks are the best-performing financial assets. If your time horizon is shorter, scale back the stocks—all the way to zero if you think you might need the money in less than a year. If you think you will need the money sometime beyond a year but within five years, put roughly half of your assets into bonds. If you are working and paying taxes, you probably should buy tax-free municipal bonds because their after-tax rate of return is higher than that of taxable bonds.

On the other hand, if the money is in a pension-related portfolio and exempt from taxes, then buy U.S. Treasury notes. They have practically no commission (which is why brokers don't like them), they have superb liquidity, and they offer yields that, when adjusted for inflation, are at historically high levels. Both Treasury and municipal issues are available from brokers, although you are likely to hear about bond funds first.

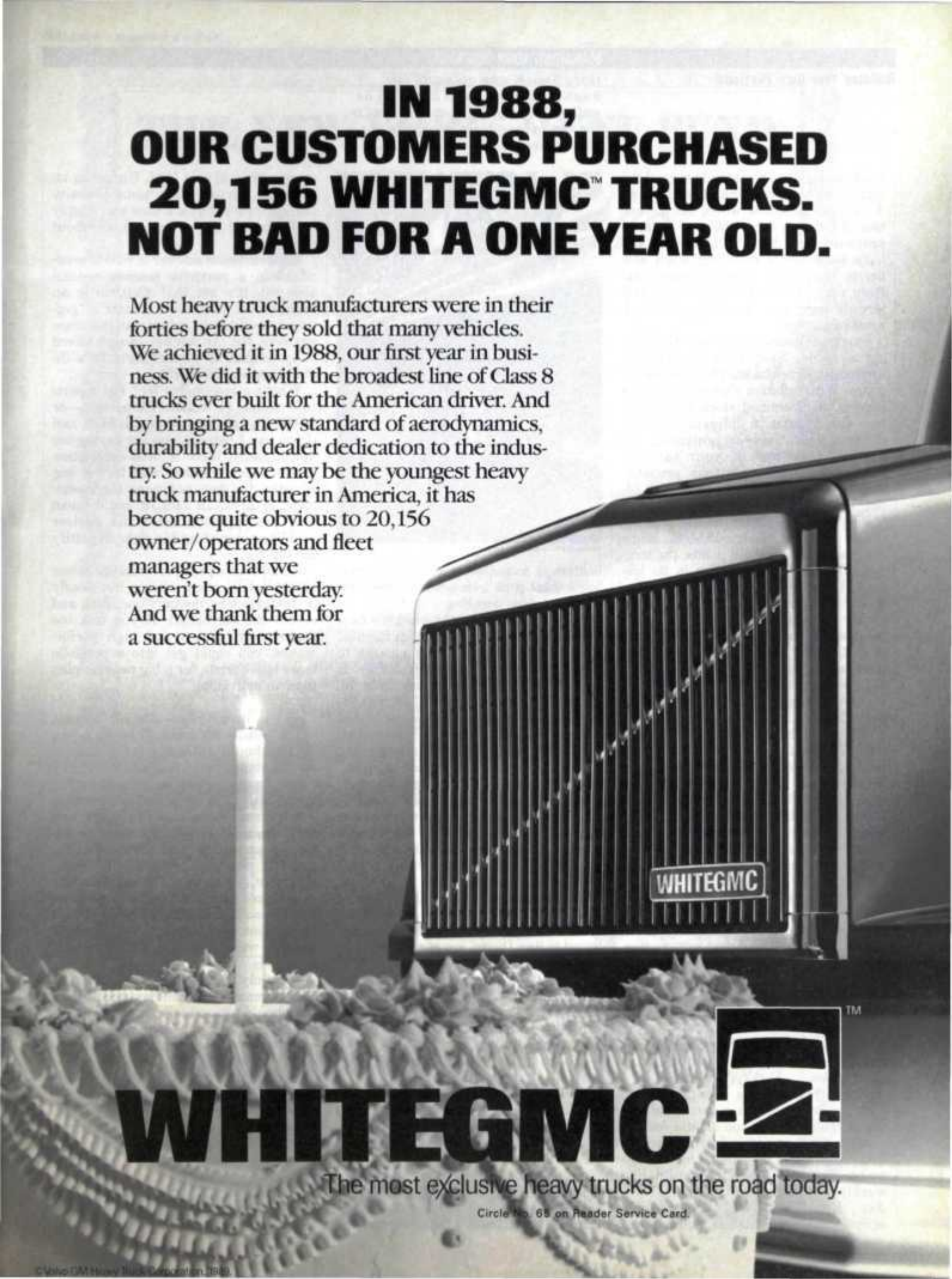
Brokered bond funds are widely advertised and aggressively marketed. But they have many problems. One of them is the big commission. It can be as much as 8 percent—a full year's worth of interest income that is going into the broker's pocket and not into yours.

If you have more than $25,000 to spend on bonds, you are better off buying individual Treasury bonds and individual tax-free municipal bonds.

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Building Your Own Portfolio

bonds to mature. You should spread the maturities out over a number of years. A prudent schedule would be maturities of 1 to 10 years. This way you are protected from hyperinflation (you will have some bonds maturing when new bonds have high interest rates) and from very low interest rates (you will already own some bonds paying high rates of income).

Stocks, of course, are where the money is made. Stocks have returned around 10 percent a year for the past 50 years. With inflation running around 4 percent, a diversified stock portfolio—one with at least 20 different stocks in different industries—is protecting the purchasing power of your savings. Such a diversified portfolio probably won't beat the market averages too often. But the ride will be smoother.

People worry about abrupt market drops, like that of Oct. 19, 1987, when the market dropped 504 points, the largest single-day price decline in its history. There always will be short-term speculative excesses, but the market comes back. It did after the Great Depression of the 1930s, and it did after Oct. 19, 1987. The issue is one of time horizon. If you cannot wait for the market to come back, as it always does, then you should not be in stocks in the first place.

When you first buy stock, do not hesitate to put 10 percent of your money into companies in your own industry. Whether you are in the funeral business or the baby-food business, you know the industry niches, you know which companies are managed well and which ones are not, you know what's glitter and what's gold.

The rest of your stocks should be in the major sectors of the economy. For instance, you might consider 25 blue-chip companies, approximately three each in the pharmaceutical, automotive, computer, banking, industrial, retail, energy, and utility sectors of the economy. Companies such as Merck, IBM, Exxon, J.P. Morgan, and Procter & Gamble will continue to grow with the economy, and they will give balance and diversification to your industry stock picks.

If you have doubts about what are high-quality stocks in a particular sector of the economy, you should consult the independent advice (it's not from a brokerage firm) of Value Line Investment Research Service, published weekly by Value Line Inc., 711 Third Ave., New York, N.Y. 10017. A subscription costs $495 a year, and the publication is available in public libraries. Value Line is an indispensable resource for the do-it-yourselfer.

Gary Smith, who manages the finances of Mail Boxes Etc. USA as well as his own, believes restraint is the key to long-term success in the stock market.



PHOTO: © BOB GRIEBER—BLACK STAR

What about timing the market—buying at the bottom and selling at the top? Forget it. No one is smart enough to beat a simple buy-and-hold strategy. It is counterproductive to try. For instance, investment "greats" such as Peter Lynch and John Templeton spend their time finding value in the market, not trying to call the next turn in price.

Finally, there is the matter of investment return. The quest for top-percentile investment performance can lead to unacceptable volatility. You may be happier seeking average investment performance. Even the highest fliers can pull ahead one year and fall behind the next.

Gary Smith, chief financial officer of Mail Boxes Etc. USA, a $13-million franchisor of temporary office services, based in San Diego, is a confirmed do-it-yourself investor who says restraint is important for long-term success in the stock market. "Trying for the big returns of 20 percent or 25 percent a year can get you into some things that you don't want to own," says Smith. "If I can earn 15 percent a year with my portfolio, I am very happy."

Still, while business sense and market sense often go hand in hand, not all entrepreneurs have the confidence or the time to manage their own investments. If you are among them, consider hiring an investment adviser. An investment adviser sells nothing but independent investment advice. He or she charges a flat fee and does not receive commissions of any kind. Hiring an investment adviser takes some preparation and work, but it's time you simply must expend if you care at all about your money.

An investment adviser is recommended when a portfolio reaches around $500,000. It's not that $300,000 is an insignificant sum; it's a matter of getting something in return for the management fee. An adviser cannot afford to spend time on a small portfolio without charging too much.

What's a reasonable fee? For a portfolio worth $1 million, 0.6 percent—or $6,000—is fair. One percent is high, and if you pay 2 percent, you are paying too much. Sadly, there is little correlation between performance and fee. A big advisory fee does not mean big investment returns. In fact, it could mean just the opposite, since the adviser could be suggesting big risks to justify the big fee.

An adviser's past performance is one of several selection criteria, but clearly it should not be the only one. Risk and return are correlated. If you talk too much about return and high performance, you could get into a portfolio more appropriate for a big pension plan than an individual.

An investment adviser cannot read your mind. Therefore, you should collect your thoughts about your tax situation, any trust arrangements or programs for giving assets to children or charities, any unusual income requirements, any fixed financial obligations for the future, your tolerance of price volatility, and any personal aversions to liquor, cigarette, or casino companies. You should conduct this self-examination before you talk about the adviser's past investment performance. Performance must be weighed in terms of one's special needs.

Certainly you should ask your lawyer and accountant for referrals, and then you should plan on talking to a number of advisers. And you should do the talking. It is your money and ultimately your responsibility. If the adviser does a poor job, the money that's lost is—or was—yours, not the adviser's.

So too with your business, of course. Taking responsibility is the first ingredient for success, whether it's success with your company or with your savings. **NB**

To order reprints of this article, see Page 80.

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Nonprofit Groups: An Unfair Edge?

Some businesses contend that the entrepreneurial ventures of tax-privileged groups should be curbed when they compete with tax-paying firms.

By Donald C. Bacon

For 28 years, Earl H. Hess, president of Lancaster Laboratories Inc., an independent analytical services firm in Lancaster, Pa., has competed commercially against a growing army of nonprofit laboratories that operate at a fraction of his costs.

The nonprofit labs, exempt from taxes and many regulations, have underbid Lancaster and other independents for contract work by as much as 50 percent. On the issue of unfairness in the marketplace, Hess says he speaks as one who has "felt the sting of nonprofit competition in the middle of my gut."

Hess is among thousands of tax-paying small-business owners who have begun speaking out against such competition. Individually and through organized groups such as the U.S. Chamber of Commerce, they are demanding changes in existing law to ensure that all businesses, whether profit-seeking or nonprofit, compete on an even basis.

Joseph F. O'Neil, chairman of the Business Coalition for Fair Competition, says, "Commercial activity by nonprofit entities is unfair and is a serious problem for small businesses; the present federal tax laws regulating the nonprofit sector are woefully inadequate." The coalition, comprising more than two dozen national trade associations and other groups, is pressing Congress for legislation this year to eliminate competitive inequities between for-profit and nonprofit commercial businesses.

Observes Frank S. Swain, chief counsel of the Small Business Administration's Office of Advocacy: "The small-business community does not want to curtail the many necessary services provided by nonprofits, nor do they want to limit competition *per se*. ... Small firms do object, however, when nonprofits engage in competing activities and operate under a different set of rules. ... The issue is one of fundamental fairness."

In recent years, competition from commercial nonprofit enterprises has spread to a wide and expanding range of small businesses, including nurseries, computer retailers, consulting engineers, testing laboratories, hotels, orthopedic and prosthetic dispensaries, travel and tour agencies, veterinarians,



PHOTO: T. MICHAEL KEZA

Commercial ventures of tax-exempt organizations, such as this museum bookstore, are often cited as unfair competitors by taxpaying private businesses.

health clubs, medical-equipment distributors, audiovisual stores, tour operators, and bus and taxicab operators. These enterprises often are operated by colleges and universities, state or local governments, or private organizations.

A nonprofit organization's commercial enterprises that are "substantially related" to the organization's primary purpose are exempt from federal, state, and local taxes. The organizations also pay lower postal rates and receive special treatment under laws dealing with a number of issues, including unemployment insurance, the minimum wage, securities, bankruptcy, and antitrust matters. Many nonprofits also receive public subsidies.

Small-business owners say that because of their expenses for taxes, rent, wages, and regulatory compliance, they cannot match the lower operating outlays of competing enterprises run by nonprofit entities, especially when those lower costs lead to sharply reduced prices to the consumer. Some owners say they have been driven out of markets by predatory pricing practices of tax-favored competitors.

The House Ways and Means Subcommittee on Oversight and the House Small Business Committee, in separate investigations over the past two years, heard testimony from scores of angry business owners who said they were rapidly losing markets to nonprofit competitors. Together, the committees produced a lengthy catalog of nonprofits' intrusion into traditionally commercial areas. A few examples:

- Earlene L. Causey, executive president of VIP Travel Agency of Baytown, Texas, and national director of the American Society of Travel Agents, reported a "continuous push of the nonprofits and state and local governments to get into the travel and tourism business."
- Robin Holm, co-owner of Washington Hearing Aid Center, Seattle, and president of the National Hearing Aid Society, said tax-exempt clinics and hospitals have emerged as major marketers of hearing aids and are threatening to monopolize the industry.
- Thomas E. Diroff, owner of Technology Partners Inc., of Ann Arbor, Mich., was among several computer retailers who complained of unfair competition from colleges and universities now marketing computers at sharply discounted prices to students and others.

No one denies that tax-exempt orga-

Nonprofit Groups: An Unfair Edge?

Earl H. Hess, head of an independent commercial laboratory in Lancaster, Pa., has long challenged the tax-exempt status of campus-based labs that compete with his company.

nizations make up a major and growing economic force. They have proliferated rapidly, especially in recent years. There are approximately 1.2 million such entities, more than twice as many as there were in 1965, according to Internal Revenue Service estimates.

What alarms many observers is the rapid expansion of some tax-privileged institutions into entrepreneurial ventures. A General Accounting Office study shows that in 1975, 39 percent of funds raised by charitable organizations came from income-producing activities; by 1982, it was 81 percent.

Congress last attempted to address the unfairness issue in 1950, when it began requiring nonprofit entities to pay tax on any income from certain commercial ventures. Tax exemption was to apply only to income derived from activities "substantially related" to the organization's primary purpose. Congress made clear that its main goal was not to raise revenue but to assure fair competition.

Evidence indicates that, on either score, the unrelated-business-income tax (UBIT) has been a disappointment. In 1987, UBIT returns were filed by only 27,000 of the 866,000 exempt organizations on the IRS master list, which omits religious categories. Most tax experts believe that far more organizations should have filed UBIT returns.



PHOTO: T. MICHAEL KEZA

The IRS collected about $120 million in unrelated-business taxes in 1987. That was double the amount collected in 1986 but still not a lot, authorities contend, in comparison with the estimated $300 billion in total revenues the nonprofit sector generates each year.

Critics of the current system contend that many organizations simply are not reporting unrelated business income. As economists James T. Bennett and Thomas J. DiLorenzo argue in their recently published study, *Unfair Competition: The Profits of Nonprofits*: The law "is vaguely written and riddled with exceptions and loopholes, and as a result is not an effective control." They conclude that even if it were strictly enforced, the law "would still not solve the problem of unfair competition."

That view is shared by many small-business advocates who believe the problem cuts much deeper than an unenforced or unenforceable tax policy. Tightening the unrelated-business-income provision—an idea currently gaining support among lawmakers on Capitol Hill—would still leave other questions of fairness, says O'Neil of the Business Coalition for Fair Competition. He adds: "UBIT is a partial solution at the very best."

The position of the U.S. Chamber, itself a tax-exempt organization under Section 501(c)(6) of the federal tax code, was spelled out in a statement adopted by the board of directors last June and reaffirmed in February. While declaring that a "vibrant, tax-exempt, nonprofit sector is critical to the maintenance of a sound social fabric," the Chamber noted that some exempt organizations compete unfairly with tax-paying small businesses.

The Chamber endorsed proposals for strict enforcement of current UBIT requirements along with modification of the law to specify certain activities as clearly taxable.

The next step is up to Congress. Legislation to address the unfair-competition problem could come before the House this year. House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., described efforts to revise the UBIT provision as a priority matter and asked the oversight panel to submit findings and recommendations to the full committee soon.

In mid-March, some 200 small business owners and representatives from across the country gathered in Alexandria, Va., near Washington, to attend the second annual Conference on Fair Competition.

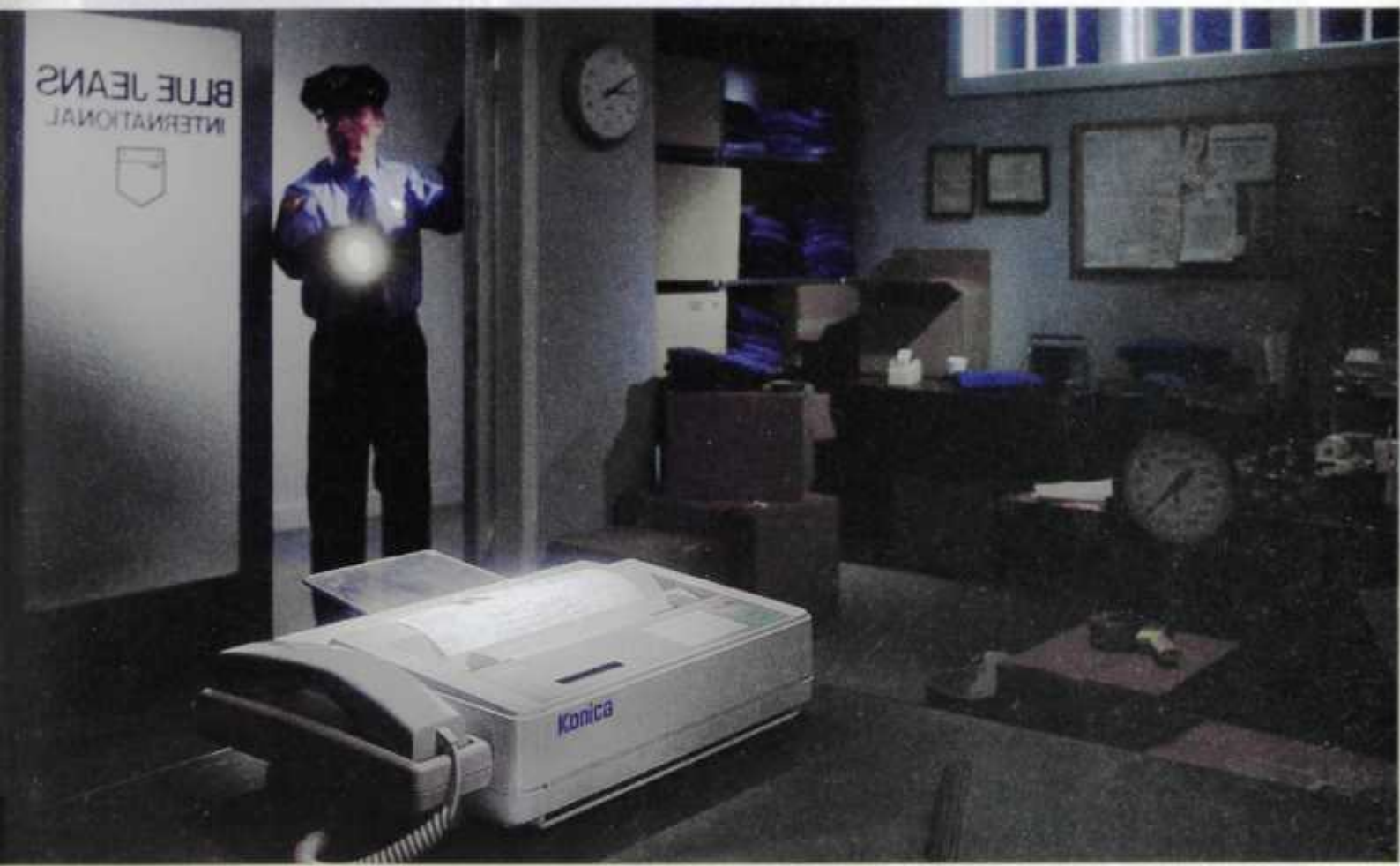
A main objective, says O'Neil, whose group sponsored the event, was "to give those attending the conference a chance as a group to go to Capitol Hill to let Congress know that to small business this is a serious problem, and they would like action." NB

Why All The Fuss Over Nonprofits?

When private business owners complain of unfair competition from nonprofit organizations' commercial ventures, they are referring to specific advantages accorded nonprofit entities by law and custom. Those advantages can be grouped in four categories:

- *No Taxes.* Some 1.2 million organizations, including civic and business leagues, social clubs, and charitable, educational, and scientific institutions, are exempt from federal taxes. Most also are exempt from state and local income, sales, property, and business and occupation taxes. Nonprofit organizations are required to pay taxes only on commercial activities that the Internal Revenue Service construes as not "substantially related" to the organization's primary tax-exempt purpose.
- *Fewer Regulations.* Nonprofits are exempt from, or receive special treatment under, numerous federal laws, including those that deal with unemployment insurance, the minimum wage, securities, bankruptcy, antitrust matters, and copyright requirements. Many state and local laws also favor nonprofits over private businesses.
- *Postal Subsidies.* Nonprofits qualify for federally subsidized mail rates for marketing goods and services. No restrictions are placed on the amount of advertising contained in material under nonprofit postage. The third-class postage rate for nonprofit mail presorted to the carrier is a fraction of the rate paid by a private business.
- *"Halo" Effect.* Commercially active nonprofits benefit from an intangible advantage in good will. Experts say that consumers usually will favor the product or service of a charitable organization over a similar product or service of a private business. Favorable public perception of nonprofits often leads to tangible benefits, such as free media announcements and advertisements of a commercial service or product bearing the nonprofit's imprimatur.

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MANAGING YOUR BUSINESS

Take Charge Of Your Job

By Roger Thompson

Pat Nickerson thrives on solving other people's problems. She specializes in the kinds created by bosses, clients, and co-workers. Problems such as these:

- Your "in" box is overflowing. Your phone won't stop ringing. And your boss just handed you a rush project to finish by the end of the day. What are you going to do?
- You've been working late for three weeks, and there's no end in sight. Is there something wrong with the way you are handling your job?
- Your concentration is broken continually by walk-in visitors and telephone interruptions. How do you get your work done and still help the people who count on you?

Business people have such a high interest level in finding answers to those questions that they have been packing hotel conference rooms throughout the West for Nickerson's daylong workshops. A recent session spotlighted that interest—94 business owners, managers, and just plain harried employees turned out at the Denver Airport Hilton for a recent session titled "Managing Multiple Priorities." The event was sponsored jointly by *Nation's Business* and Dun & Bradstreet.

Nickerson quickly establishes herself as a missionary to those afflicted with demand overload. "What we are talking about here today is the conflict among legitimate demands," she explains. "I won't give you one good idea for coping with competing demands; I'll give you 25 and hope you can pick four or five that work for you."

Each person attending her workshop receives a 60-page handbook that supplements her presentation, which is a special blend of business savvy and wit.

The first step in managing a work overload is coping with the stress it creates, Nickerson says. Sudden stress attacks that are brought on by unpleasant encounters with a boss or a client can be soothed by a simple deep-breathing technique. Inhale deeply through your nose for four seconds, and exhale through your mouth for four seconds. Concentrate on your breathing, and repeat this exercise several times.

Nickerson suggests another exercise for staying calm under pressure. It's called framing. Simply draw a two-inch-square box, and think to yourself, "I am competent." Now draw another box inside the first, and think, "I am prepared." Continue drawing boxes within boxes and thinking positive thoughts about yourself. What looks like doodling to others is actually an effective way to put distance between yourself and the source of your tension.



PHOTO: © JAMES COOK

"I won't give you one good idea for coping with competing demands," says Pat Nickerson, "I'll give you 25 and hope you can pick four or five that work for you."

Some stressful situations aren't as harmful as they might appear. For example, she says, according to some researchers, 16-hour workdays can be tolerated by most people for up to three weeks with no harmful side effects.

The worst kind of stress is produced by a constant feeling of frustration, which leaves people drained and exhausted at the end of the day. This is not the kind of problem that yields to relaxation techniques. It demands changes in the way you work. Says Nickerson: "Behavior change is what this seminar is all about."

She devotes most of the workshop to various approaches to remove frustration from your daily routine. The most important is to master the skill of set-

When your work load becomes an overload, try lecturer Pat Nickerson's advice: Reduce your job stresses and set priorities—not just schedules.

ting priorities, which is not the same as scheduling, she says. Scheduling determines *when* something is to be done; setting priorities involves determining *whether* to do it in the first place.

One of the best ways to think about priorities is to list in descending order of importance your boss's top eight tasks for the year. Then have your boss do the same. Next, compare the lists. You might be surprised at how different they are. One study showed that company presidents and vice presidents differed by 40 percent when they compared assumptions about priorities for the year. "Your gap could be worse, and it could hurt you [on the job]," says Nickerson.

Once you understand the big picture, what about handling daily pressures on your time? Nickerson advises sorting your tasks by value into three categories: high, medium, and low. Concentrate on the high-value tasks, delegate the medium-value tasks, and ignore the rest. Nickerson paraphrases management expert and author Peter Drucker to make her point: "Stop trying to do everything right; do only the important things supremely right."

Once you have set priorities, you're in a better position to handle unexpected demands from a supervisor or a client. When someone asks you to take on a new task, always ask its priority and deadline. Then draw a diagram to show which tasks will be delayed if you take on a new one. Let the person making the request see its consequences. If you must say no, work with the person to find an alternative. A flat rejection may make you appear uncooperative.

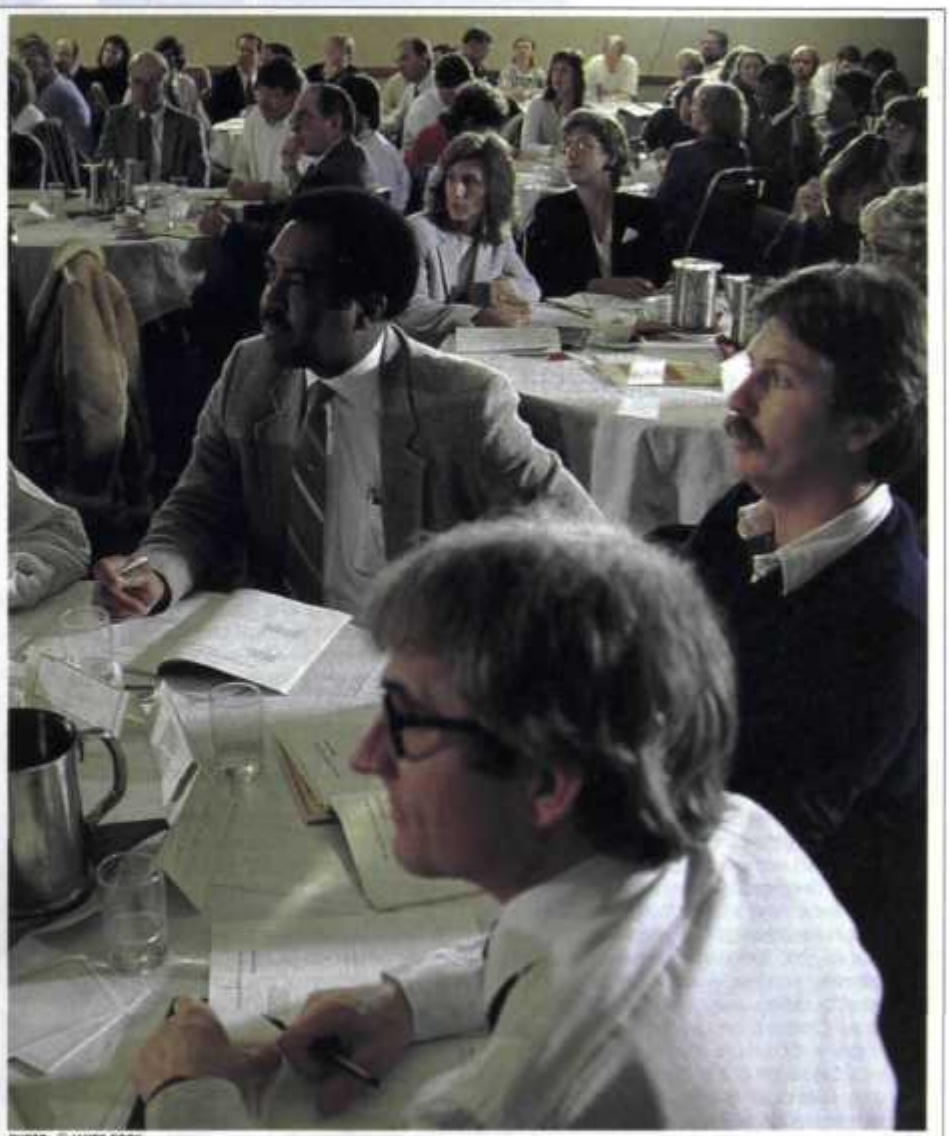


PHOTO: ©JAMES COOK

Here in Denver as in other cities throughout the West, business owners, managers, and employees crowd a daylong workshop on setting job priorities.

Nickerson's advice is drawn from years of wide-ranging experience as a consultant in the training field. She has managed the London office of a major training company, and she now is managing director of Education for Business and Industry, a San Diego consulting firm that she and her husband operate. Her clients over the years, in addition to Dun & Bradstreet, have included IBM, American Airlines, AT&T, and units of the armed forces.

Whether her workshop students actually attempt to practice what she preaches is difficult for Nickerson to know, of course. But at the Denver session, most appeared determined to try.

Charlene Malson, an administrative coordinator for Ryder Truck Rentals, figured she learned enough about focusing on key tasks to justify asking her boss to hire a temporary employee to help clear a backlog of work.

Pam Wilson, coordinator of a merchants' association in suburban Denver, said she often left work at the end of the day "not sure that I got the right things done." She now plans to set priorities among the competing demands of 13 board members and 70 association members. From now on, she said, "the really valuable tasks come first."

That's just the kind of talk Pat Nickerson loves to hear.

For More Information

To learn more about the *Nation's Business*/Dun & Bradstreet seminars, or to arrange for a program at your chamber of commerce or at your company for groups of 15 or more, call 1-800-972-6900. NB



EGYPT

A message from Egypt's ambassador to the U.S.

[El Sayed Abdel Raouf El-Reedy, Egypt's ambassador to the U.S., is highly optimistic about the economic future of his nation and his region. A renewed spirit of economic cooperation and new peace initiatives in the Middle East are the first vital steps toward a new era of opportunity for domestic and foreign businesses, El-Reedy said recently during a wide-ranging interview in his office, on Washington's embassy row. Following are some of the ambassador's views on the outlook for Egypt and its neighbors.]

The prospects for Arab unity and peace in the Middle East are better than they have been in memory. If these things come about, business people around the globe will be among the biggest beneficiaries.

The Arab world has been groping for unity since the breakup of the Ottoman Empire, but its efforts have intensified sharply since the end of World War II. However, for a variety of external and internal factors, this unity remains elusive.

Still, the fact that there have been and continue to be so many attempts at unity is indicative of the deep-seated desire for solidarity among Arabs. And at least failed attempts of the past have allowed the peoples of the Middle East to gain fantastic experience. As part of this learning process, Arabs have begun to realize that building unity is like building any structure: Unless it has a solid foundation, the top floors will crumble. In the case of Arab unity, the foundation is the thing that touches on the daily lives of all the region's people: economic interdependence.

In recognition of this, at the urging of Egypt, the states of Egypt, Iraq, Jordan, and North Yemen have formed the Arab Cooperation Council. This council is an attempt only at economic interdependence. Its member states have rejected the temptation to prematurely build those "top floors of the building"—a grandiose political agenda.

Membership on the council is open to all countries of the region, and Egypt is hopeful that the other Arab countries will join. Egypt hopes ultimately to fold into the council the members of other regional blocs, like the Gulf Cooperation Council.

It is Egypt's hope that the council will open the way to increased joint ventures, trade, and, perhaps one day, a unified internal market such as the one now being created by the 12 members of the European Community.

Egypt believes that the world has entered a new era, an age in which regional trading blocs will be the keys to business opportunities and prosperity. Egyptians see this reflected in the efforts of Europeans to unify their market at the expense of some of the sovereignty of individual member states. Even the U.S., which is the world's best economically structured state, recently entered into a free-trade agreement with its Canadian neighbors.

But while the nations of the Middle East are determined to gain unity, even that important goal is secondary to achieving regional peace. The Arab world is actively searching for peace, because peace is the key to improved economies throughout the region.

This search for peace is part of a global period of growth and adjustment, one in which it is realized that political change and upheaval are incompatible with economic growth.

If peace were achieved in the Middle East, economic opportunities would be created for business people of the region and the rest of the world beyond anyone's imagination.

In the area of tourism, for example, visitors could land in Beirut, Lebanon, and travel in safety along the eastern Mediterranean coast, through Israel, across the Sinai Peninsula, down to Cairo, and then up again through the North African countries of Tunisia and Algeria—all the way to Morocco.

Think of the motels, restaurants, and all the other service facilities that could be built. All of the civilizations of the world were born in this region or affected by it, and people from throughout the globe would be able to explore their roots and their history.

Peace would free vast human resources for productive development as well as an abundance of agricultural, mineral, energy, transportation, and other resources.

Peace would transform the face of the region completely, combining the old ways with the new technology. And it would pave the way for secure and productive investments, trade, industrial growth, and more.

It would be a dream, but it can come true if all parties involved work hard.

From the Egyptian perspective, I think we now have a good chance to gain peace. Egyptians are not ignorant of the serious problems impeding those who seek a Middle East peace, but they are optimistic.

There have been many encouraging developments, such as the more accommodating positions of the Palestinian leadership on the recognition of Israel and renouncement of terrorism. Also encouraging is a recent poll showing that the majority of Israelis believe negotiations should take place with the Palestine Liberation Organization.



El Sayed Abdel Raouf El-Reedy, Egypt's ambassador to the U.S.

But the most significant reason for optimism, in the Egyptian view, is the seeming new awareness among more and more people of the world that the status quo in the occupied territories is absolutely intolerable.

This mood is part of a greater global feeling for peace and cooperation in places as far removed as Angola, Afghanistan, Central America, the Soviet Union and the U.S., and Iran and Iraq.

Few nations of the world have more at stake in gaining peace than Egypt because the potential for Egypt is so enormous if a Middle East peace is achieved. Egypt is going to be at the center of the postwar integration process. When we opted for peace 10 years ago, all our Arab brothers ostracized us. Now, all our Arab brothers are coming back to us, as evidenced by the creation of the Arab Cooperation Council.

True, there is no doubt that Egypt now faces a difficult economic situation. There are serious difficulties concerning the budget deficit, trade balance, and balance of payments. Many of these problems have their roots in the worldwide decline of oil prices, which hurt Egypt's domestic industry and reduced tax remittances by Egyptians working in other oil-producing nations of the region.

But parallel to this reduction in revenues,

Forging Partnerships With Americans

Egypt is determined to reform its economy. It is determined to bring about much more privatization and complete liberalization of all economic sectors and to move toward a unified exchange rate. Much progress has been made in these areas—at present the agricultural sector is completely liberalized—and efforts will continue even though they have had unfavorable short-term economic consequences.

The International Monetary Fund would like Egypt to move even faster in these areas, notably in ending subsidies for commodity prices. But while Egyptians are committed to ending subsidies, they also are committed to doing this gradually.

Egyptians have a deep sense of family solidarity and responsibility. This sense is transformed into a larger sense of overall social responsibility. To eliminate subsidies all in one strike would cause many prices to increase radically, creating a great deal of social suffering. This is against the Egyptian character.

As an example of this character, even though Egypt is suffering through many economic problems, education remains totally free. That includes medical school, engineering school, architectural school, everything.

So a situation where people could not afford to buy enough bread would be totally unacceptable to Egyptians.

Egypt is committed to tackling the problem of subsidies, even if it means austerity. But austerity will have to be gradual. This not only is more just but also is better economics. Gradual austerity will not choke off economic growth and business opportunities.

However, internal economic problems should not deter even for a minute those foreign business people now considering investment or trade with Egypt.

Those who come here now will have access to a local market of 50 million people and, if peace is achieved, a potential Middle East market of an additional 100 million, almost rivaling the size of the European Community.

Investment in Egypt is not only for large manufacturing companies. One of the nation's most pressing needs, for example, is for a service—production of computer software.

Egyptians love the American people. We don't just want your economic assistance. In fact, our economic reforms are aimed at reaching the day when Egypt will no longer need external assistance.

What Egyptians want is the friendship of Americans and American business and technological know-how. Egyptians want to forge partnerships that will allow Americans and Egyptians to profit in the days that everyone hopes soon will be ahead: days when there are peace and stability in the Middle East and the entire world.

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J.D., Marietta, Ga.

For general information on recycling, write to RCRA Docket, U.S. Environmental Protection Agency (OS-305), 401 M Street, S.W., Washington, D.C. 20460. You will be placed on a mailing list for publications and brochures.

For information about the business of recycling, contact the American Paper Institute, 260 Madison Ave., 10th Floor, New York, N.Y. 10016; (212) 340-0600. The institute will send you a publications list on request.

The institute does not have a list of waste-paper dealers, however. The phone numbers of such businesses can be obtained by checking the listings in regional telephone books.

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I understand that many U.S. companies use relocation counselors to make the relocation of employees as painless as possible. I am considering using a relocation counselor for my firm. Where can I find information about specific services these counselors provide, as well as their costs?
W.H., North Augusta, S.C.

The Employee Relocation Council, whose members are relocation consultants and corporations that frequently transfer employees, publishes a national directory of consultants and other relocation services. It is available for $20 in advance. The organization also publishes a monthly magazine titled *Mobility*. The publication's articles often address the effects of relocation on employees.

If you need more information or if you would like to order the directory or the magazine, you should contact the Employee Relocation Council at 1720 N Street, N.W., Washington, D.C. 20036; (202) 857-0857.

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C.H., Winnsboro, La.

OSHA offers a free consultation service in all 50 states. The service is usually operated by a university or a state agency. The state labor department runs this inspection service for Louisiana. The address is 1001 North 23rd St., P.O. Box 94094, Baton Rouge, La. 70804-9094; (504) 925-6005.

Other readers who want to know what agency operates OSHA's consultation service in their own states should contact OSHA, N3647, 200 Constitution Ave., N.W., Washington, D.C. 20210; (202) 523-8148.

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W.R., Rock Island, Ill.

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For more information about franchising your business, contact the International Franchise Association, 1350 New York Ave., N.W., Suite 900, Washington, D.C. 20005; (202) 628-8000. Ask for a publications list and the organization's seminar schedule.

Government Grants

Are any government grants available for a woman to start her own business in the real-estate-investment field? I also need professional advice on financing and on purchasing a computer.
P.B., Upper Marlboro, Md.

Your first stop should be the Office of Women's Business Ownership at the Small Business Administration. Through national seminars, conferences, forums, and trade missions, it provides business owners and prospective entrepreneurs with resources for support. The address is 1441 L Street, N.W., Washington, D.C. 20416; (202) 653-7954.

In addition, you should contact the National Association of Women Business Owners, 600 South Federal St., Suite 400, Chicago, Ill. 60605; (312) 922-0465.

You might also try writing to the National Association of Women in Construction, 327 South Adams St., Fort Worth, Texas 76104; (817) 877-5551. The association can guide you to resources on how to get started in the real-estate-investment field. **NB**

Have a business-related question?

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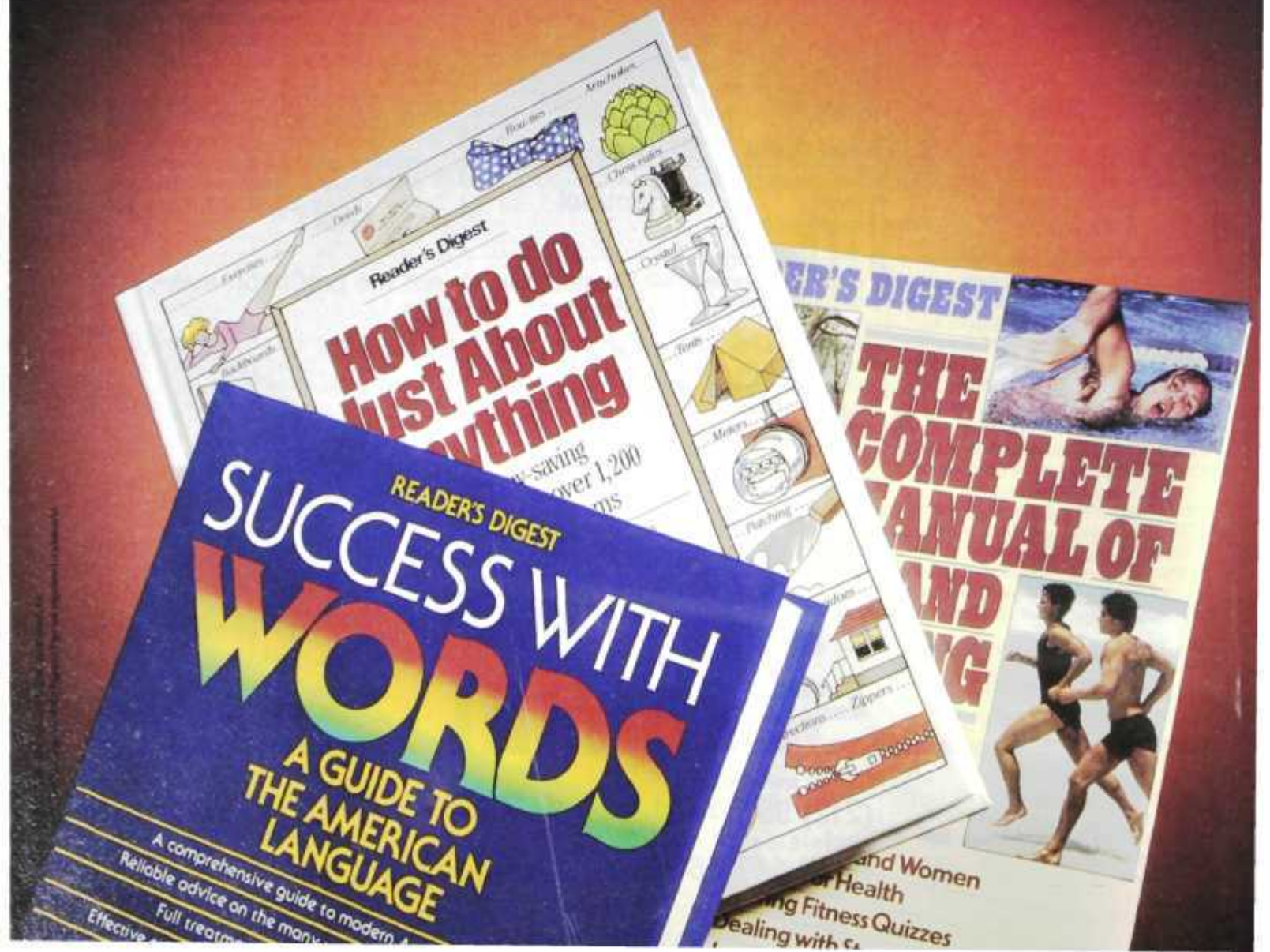
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Financial News	6:35	7:05	7:35	8:05
Small Business News	6:40	7:10	7:40	8:10
Special Business Features	6:50		7:50	
CEO Close-Ups		7:15		8:15
Internat'l Business Line		7:25		

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Marrying Into A Family Business

By Sharon Nelton

Marriage is both the blessing and the curse of a family business. Without marriages and the children they produce, businesses wouldn't be *family* businesses. But marriages can lead to divorce, remarriage, stepparents, stepchildren, problems with in-laws, and, consequently, uneasiness or outright conflict in a family firm and occasionally a threat to the business itself. The business, on the other hand, can be so demanding that it strains a marriage—sometimes to the breaking point.

It's natural to have some fears when someone in your family is getting married. In a business family, says John Ward, a professor of free enterprise at Loyola University of Chicago, those fears are more likely to be concerns about "emotional alliances" than about the possibility of divorce and the financial impact it might have on the business. "The important problem is that the daughter-in-law is going to side with her husband against her father-in-law if there's a father-son problem or against the husband's brother in a sibling-run business," says Ward.

How can a family business cope with the issues that marriage raises? It helps first to look at things from the viewpoint of the "outsider." What can you expect if you are marrying into a family business?

There are benefits. You may be marrying into wealth. You may have opportunities such as working in the business and even sharing in its ownership. And you may enjoy the love of a family that is strong, close-knit, and exciting, as business families often are.

But that business family may also include what San Diego psychologist Ken Druck calls "a very powerful, nurturing system." If you have not come from such a strong family, he says, "you may become infatuated with this system. You may want to just immerse yourself in it."

There is a lot of interaction in such families because their members deal with one another at work as well as after hours. For the new in-law, says Druck, this can be overwhelming. "There's going to be more to manage."

Among the things to be managed will be pressure to conform to the family norms, according to David Bork, a nationally known family-business consultant based in Aspen, Colo. Says Bork: "Very often, what happens is that you are expected to take on a role similar to the same-sex person in the family that owns the business." If no women in the family are involved in the business, for example, a new daughter-in-law would probably be discouraged from having an active role.

Before you marry into a family business, you should have a very strong sense of yourself and your own value, Bork counsels. Then, with your new spouse, he adds, you must "really focus on establishing a sense of identity as a couple apart from the business."

For some, marrying into a family business results in relocation. Monica Geocaris grew up in rural St. Francis, Kan. After college, she did secretarial and administrative work for eight years



PHOTO: © ROSE PROUSER

The secret to working together as in-laws, say Gary and Barbara Baylor, left, and Bob and Carole Hamm, is good communication. The two couples run Country Cupboard, a Lewisburg, Pa., business complex that includes an inn, a restaurant, a gift shop, and a greenhouse. Gary and Carole are brother and sister.

Coping with problems and pressures that can arise when marriage brings an "outsider" into the family business requires understanding, communication, and patience by spouses and in-laws alike.

in Denver. There she met and fell in love with a law student, John Geocaris. Following their marriage, they went to John's hometown, Chicago, so that John could join his family's restaurant and beer-distribution business.

"It was a bit of a culture shock," says Monica Geocaris. Now she was living in a house in the suburbs of a big city, and her identity had become "John's wife," she says. "I felt a little bit misplaced."

New in-laws may feel they are regarded with suspicion. And they are. "The moment that the daughter-in-law comes into the family, she's on trial," says Ward. "Everybody is hypersensitive to all the subtle signals she may be giving as to whether she's 'with us or against us.' "

Because she's in a new culture and she's just trying to take it all in, that daughter-in-law may seem reserved. But the strong business family, says Ward, may be wondering: "Why aren't you joining us faster? Why aren't you committing yourself to us?"

Isolation can be another problem. Ten years ago Robin Raymond left an established business as a portrait photographer in her beloved Chicago to marry a widower, George G. Raymond Jr., head of the Raymond Corp., a manufacturing and distribution firm in Greene, N.Y. The tiny upstate town revolved around the Raymond Corp., a 1,500-employee public company partly owned by the Raymond family.

While she made friends, Robin felt she didn't have "real acceptance." And she missed the cultural events available in Chicago. After 2½ years, the Raymonds moved to Binghamton, 18 miles away, and until his recent retirement, George commuted to Greene.

When sons or daughters work in the family business, they may feel they have something to prove, and therefore they may spend an extraordinary amount of time at work. And the less time they spend at home or with the children, the more their spouses can come to resent the business.

Sons or daughters may also bring home all the problems they have at work—such as disagreements with Dad or a sibling. If you're the husband or wife, you may be tempted to take sides with your spouse. But if you do, warns Ken Druck, you may find yourself in a position "that may polarize you against one or several family members." The best way to be supportive, adds Druck's wife, Karen, also a psychologist, is not to try to tell a spouse what to do but to ask good questions. Instead of agreeing with a son who complains that he's not earning enough money, for example, a wife might say, "Honey, if this wasn't a family business, what do you think you should be earning?" Then the son can start exploring the issue himself.

One of the hardest decisions a newcomer may have to make is whether to join the family business. Many families put pressure on their children and their children's spouses to work in the firm. For some in-laws, the business can be a perfect fit. Barbara Baylor used to



When you work in your spouse's family's firm, says Monica Geocaris, "you feel a certain pressure to perform better than a nonfamily member might." Husband John is president of Little Lady Foods Inc., an Elk Grove Village, Ill., frozen-pizza company.

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teach music in school. Now she is part owner of Country Cupboard, a $7.5-million-a-year restaurant and inn that she helped start with her husband and members of his family in Lewisburg, Pa., in 1973. She says she finds her business career "much more satisfying" than teaching.

Monica Geocaris also enjoys her role as account executive for Little Lady Foods Inc., a frozen-pizza business in Elk Grove Village, Ill., that the Geocaris family acquired in 1985. She likes the work, and she likes the flexibility—she works three days a week so that she can spend some time with her two young children.

At the same time, she finds that she's harder on herself than she would be if she worked for another company. Her husband is president of the 80-employee firm. "When you come in as the boss's wife, you feel a certain pressure to perform better than a nonfamily member might," she says.

Family-business experts advise new in-laws to acquire outside experience before they join the family firm. Says David Bork, "I would stress the importance of being well-qualified before you get caught up in the business. There's no substitute for competence in family businesses."

Being competent gives you more than confidence; it minimizes the tendency of nonfamily employees to believe that you got your job just because you are a family member.

Others advise that you make sure there's a real job there with sharply defined responsibilities. Otherwise, relatives will be doing the same tasks as you are, and, says Monica Geocaris's father-in-law, Angelo Geocaris, you will be "underfoot all the time." Having separate responsibilities also avoids rivalry, points out Barbara Baylor's husband, Gary, who is president of Country Cupboard.

Young people marrying into a family business are not the only ones who create concerns. If, after a divorce or the death of a spouse, the business owner remarries, a host of fears and ill feelings can surface.

Robin Raymond jokingly refers to herself as the "wicked stepmother" of the family business. George Raymond's three children, already adults when she married him, were still suffering over the death of their mother the year before. Robin had visions "that I would be able to tie up a lot of the wounds of a grieving family."

But that was not to be. While the children didn't seem anxious about having to share the family business or wealth, they regarded the marriage and their stepmother with hostility. "I think they were mad at me," George says. They had lost a mother and perhaps, he muses, they now thought they were losing their father, too.

For some children, however, the appearance of a stepparent poses a real obstacle to inheritance or position in a business. One son had started working in his father's construction business as a teenager and had worked his way up to vice president by his early 30s. But his father died unexpectedly at age 52 and, to the surprise of the son, left everything to his second wife. She became president, and the son left to start his own firm.

With today's high rate of divorce, the possibility of a business owner's remarrying is one that can hardly be ignored. Bruce Monning, an attorney with the Dallas firm of Vial, Hamilton, Koch & Knox, says: "The big fears there are what are wife No. 2's motives and what is Dad's ability to balance his desire for happiness for the rest of his life with what the children perceive to be an obligation to perpetuate the wealth for their benefit."

Starting some early communication may ease the situation, he suggests. "When the children see that Dad is enamored of Betty Boop or whomever," he says, they should work together to establish a strategy for approaching their father and letting him know what their concerns are. They should also have a goal in mind regarding legal steps their parent might be willing to take to protect them. It might mean giving the children an interest in the business or a premarital agreement in which the second spouse relinquishes any claim to the business.

In a healthy family there's usually opportunity for informal give-and-take,

Invitation To A Survey

Nation's Business wants to know more about marrying into a family business and how business-owning families view their in-laws.

To take part in a survey, send your name and address to Family Business, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Names will be kept confidential on request.

Prenuptial Pacts Get Mixed Reviews

Some business families make it a policy to insist that before a family member marries, the couple must sign a prenuptial agreement. The purpose is to protect any part of the family enterprise from falling into the control of the new in-law. The practice meets with mixed reviews, however.

Basically, prenuptial agreements stipulate that assets—such as ownership in a business—remain the property of the parties who owned them before the marriage. In the case of a divorce in a family firm, the spouse outside the business could not lay claim to the firm.

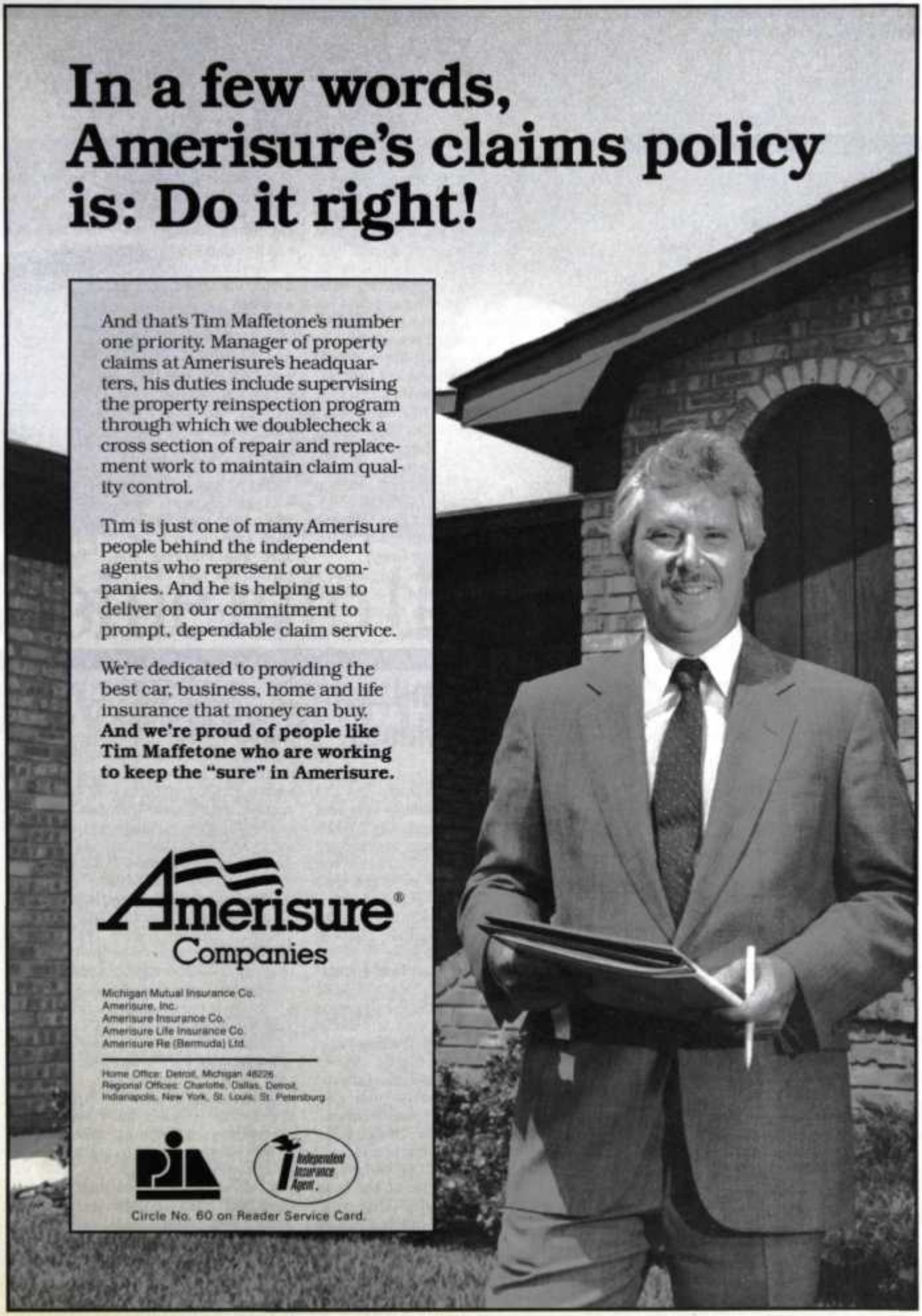
In favor of such agreements is David Bork, a family-business consultant based in Aspen, Colo. He points out that a business has "significant responsibilities" to three constituencies—the owner, customers, and employees—and all must be served in a balanced fashion. "The prenuptial agreement simply helps to protect the business from being improperly influenced because of the personal dynamics [of] individuals," he says.

Monica Geocaris says no one brought up the subject of a premarital contract when she married John Geocaris, whose family owns Little Lady Foods Inc., a frozen-pizza company in suburban Chicago. She sees raising such an issue a violation of trust.

Asking for a premarital agreement can create a lingering bitterness on the part of someone marrying into a family business, according to Dallas lawyer Bruce Monning. He says you have to weigh the legal benefits against the possible personal drawbacks.

From a legal standpoint, he says, "it is to the advantage of the family that owns the family business or the wealth to obtain a premarital agreement." But you also have to "satisfy yourself that you're not causing more harm than you're saving by injecting something unpleasant into what sometimes is the most happy time during the marriage."

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Here is a sampling:

April 6-7. "Managing the Family in Business," a course that explains how family systems develop their own traditions and values and how those affect the family enterprise. For information, write or call Education Extension, Georgia Institute of Technology, Atlanta, Ga. 30332-0385; (404) 894-2547.

May 16-18. "You, Your Family, and Your Business," a conference covering topics such as family development, conflict resolution in the family business, and transferring leadership to the next generation. For additional information, write or call the Center for Entrepreneurship, Baylor University, Waco, Texas 76798; (817) 755-2265.

June 14-16. "Managing Succession Without Conflict," a seminar on management transition in the family firm for business owners, spouses, successors, and key managers. For further information, write or call the Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

June 18-23. The Washington and Lee Institute for Family Business offers a seminar on family relationships and management strategies. Write or call the institute at Washington and Lee University, Lexington, Va. 24450; (703) 463-8723.

Aug. 27-31. "The Next Generation of Family Members in Family-Held Business," a seminar limited to next-generation family members and spouses who are trying to decide how best to participate in the family business. For more information, write or call the Family Business Division, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

says Monning, and discussing such issues might be addressed "in more spontaneous and less staged a manner."

Good communication is also important in handling other situations arising from relationships. Country Cupboard was started by Gary and Barbara Baylor, by Gary's sister and brother-in-law—Carole and Robert Hamm—and by Gary's parents. Gary recalls that his father, now retired, used to freeze Bob Hamm out of business discussions.

"My dad would pretty much decide what he wanted to do, and my brother-in-law had to fall in behind us, and that was a great source of difficulty," says Gary. Now the two couples are running the business, and Bob Hamm is part of the inner circle. "The fact that we do communicate, we do sit down, we do listen, we do share, and we try to bring in everybody's point of view and get commitment and get consensus helps the system to work," says Gary.

And although George Raymond's children did not welcome his second wife to the family, Robin reports that some progress is being made with those relationships. "They've become a lot more forgiving, finally," she says. More important, she and George have been able to talk about the problem. "He understood, and he never let his children's feelings interfere with our relationship."

Communication before marriage helps, too. The couple should anticipate as many problems as possible and discuss how they will be handled. And, says Barbara Baylor, the one marrying into the business needs to ask questions such as: "Can I live within the constraints of what the family business requires? Can I live with the long hours? Can I live with the relationship that I'm going to have to develop in the business with my in-laws?"

Baylor says she knew just what she was getting into. She and Gary met when they were in fifth grade, and Barbara knew Gary's family very well before she married him. "For me, it turned out very nicely." NB

To order reprints of this article, see Page 80.

Welcoming In-Laws Into The Business

Business owners and their spouses can do a lot to welcome sons-in-law and daughters-in-law into a family. When they do, they set the stage for smoother family relationships all around and minimize the possibility of a rift that might affect the family firm adversely.

Family-business specialists offer these suggestions for handling relationships with children's spouses:

Introduce them to the family business. Presume that they know little or nothing about your family culture or about business and that they will find it difficult to ask since they are in a "subordinate" position to the family, advises John L. Ward of Loyola University of Chicago. Take the initiative and give them an overview of your business. Send them to a family-business seminar. (See the accompanying box.)

Act as an ambassador. And be empathetic. If you are the wife of the business owner, for example, invite your new daughter-in-law to lunch and talk to her about how you were once in the same position, and how you learned about the family business. This will help you develop a bond with your daughter-in-law, says Ward.

Play up the strengths of sons- and daughters-in-law. One of Ward's favorite examples is a daughter-in-law who is a musician. Her husband's family makes it a point to attend her performances and to talk with her about her career. Such recognition not only helps in-laws develop self-esteem in their new family but also helps a business family broaden its own interests.

Give newlyweds emotional space. Close-knit business families can overwhelm a young couple. The parents might expect that the newlyweds be present at all family occasions, for example. But a new family needs to develop its own norms and traditions, says family-business consultant David Bork of Aspen, Colo. If the young couple decides to spend a Christmas on its own, parents should view this not as a sign of abandonment but as an expression of the young people's need to establish themselves as a separate unit.

What if you are not happy about your child's selection of a spouse? "Any caring parent is concerned that their children will make a good match," says Bork. Nevertheless, if you're not pleased with the choice, you simply have to stand back, he says. "The wise parent is the one who says nothing."



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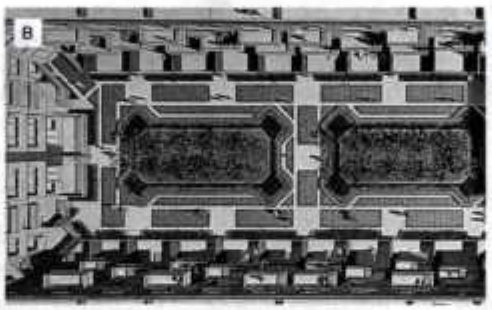
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COMMENTARY

Mandated Benefits' Costly Trap

By Warren T. Brookes

The good news for business is that Massachusetts Democratic Sen. Edward Kennedy's bill proposing mandatory health insurance is apparently going nowhere in the 1989 legislative session, as Congress trims its "mandates" agenda to parental leave and minimum-wage increases.

The bad news is that versions of the Kennedy approach are already high on many state legislative agendas. This is largely a result of the much-publicized April 1988 passage of the Massachusetts Universal Health Care Law (Chapter 23), which became an important element in Gov. Michael Dukakis' presidential campaign.

Yet there now is growing sentiment in the Bay State to overhaul that bill drastically or repeal it altogether, not only because of the state's current fiscal crisis but also because of unexpectedly rapid rises in health-insurance premiums now hitting the state's businesses.

The original Dukakis bill won the grudging support of industry primarily because it was supposed to stop the rise of costs of uninsured care being imposed on insured employers by hospitals and insurance carriers.

The idea behind the bill was to force the uninsured employers either to cover their employees or to pay a tax in lieu of this insurance. This "play or pay" concept was supposed to slow down health-insurance surcharges, which are imposed by insurers for unreimbursed hospital costs; the surcharges had risen from 9.8 percent in 1985 to 13.1 percent, or $325 million, in 1988.

But the key to the success of this new program was the state's commitment to cap that $325 million, pay the next $48 million out of general tax revenues, and then split any excess 50/50.

Unfortunately, the Dukakis administration sharply cut that commitment in the fiscal 1989 budget and eliminated it from the 1990 budget, largely because of the state's $700-million budget deficit.

Instead, they are now proposing that industry pay all of the increments in higher premiums and contributions to the pool. This proposal and the unexpectedly large increases in health-insurance premiums statewide have driven the estimated first-year additional cost of this plan to more than $700 million, and the "free care" surcharge could reach 15 percent or more.

The Pioneer Research Institute, a conservative think tank in Boston, estimates that the plan already has cost the state some 9,000 jobs. Since the plan was first introduced in the summer of 1987, the state has lost nearly 30,000 manufacturing jobs, even as the nation has added close to 800,000.

Industry and many in the legislature want to repeal the whole law before still more economic damage is done; it is now clear that the law may be decreasing rather than increasing employee health coverage.

"As many as one out of every four uninsured people (or about 9.3 million people) lack health insurance because of current government policies."



Warren T. Brookes is a nationally syndicated columnist on economic issues.

At the moment, employers who do not provide insurance are assessed a tax of 12 percent per worker on a wage base up to $14,000, or a maximum of $1,680 a year. Yet private health-insurance plans now cost businesses an average of over $1,700 an employee per year nationwide, and in Massachusetts the average exceeds $2,000.

Thus, smaller employers increasingly will be tempted to opt to pay taxes to the state instead of buying insurance, leaving still more workers dependent on an increasingly state-funded system.

There is nothing new about this. Most of the problem of lack of health insurance has been generated by soaring state mandates on health-insurance coverage and benefits.

In 1970, various state mandates that insurers cover particular types of care and treatment totaled 30 altogether. (For example, a certain type of coverage required by three states would be counted as three mandated benefits.) By 1988, there were 686 such mandated benefits nationwide, provided in legislation passed in all 50 states and in Washington, D.C.

These mandates have had the effect of raising the price of insurance coverage quickly. An analysis by economists John Goodman and Gary and Aldona Robbins, completed for the National Center For Policy Analysis (NCPA Policy Report 136, February 1989), shows that "as many as one out of every four uninsured people (or about 9.3 million people) lack health insurance because of current government policies."

While large companies can absorb mandated benefits, smaller employers and the self-employed—let alone the unemployed—cannot, so they opt out of coverage. Furthermore, about half of the uninsured population is not working, and those people won't be covered even by any mandated benefits program. And among those who are working, about two-thirds are either self-employed or are employees with firms that have fewer than 25 employees and are least able to handle their costs.

In other words, in the proposals for mandatory health insurance, we once again are seeing states trying to repair the damage they have already done but inflicting still more pain.

In Massachusetts, nearly 60 percent of the uninsured have family incomes over $20,000, and 15 percent have incomes over $50,000. So the major share of the "uninsured" are not poor; they could afford coverage but choose not to pay its soaring costs.

The NCPA analysis says the Massachusetts plan, if adopted by all states, would cost $23 billion a year to start and would eliminate up to 358,000 jobs the first year. The only thing worse would be the Kennedy bill, whose estimated costs range from $108 billion to $159 billion.

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Look Before You Leap Into A VAT

A value-added tax is a revenue raiser but a paperwork headache, especially for small businesses, as Britain can attest.

When tax-increase forces in Congress discuss new revenues, the subject of a value-added tax (VAT) usually comes up.

And it's readily apparent why this particular levy appeals to legislators who look to higher taxes, rather than spending restraints, to control the federal budget deficit.

VAT is a money machine—it would bring in $25 billion in this country for every percentage point of the rate. A 5 percent VAT would bring in enough to balance the budget in one year.

But the levy's awesome power to generate such sums is also a main reason for opposition to it. Critics argue that the vastly increased federal revenues from a VAT would be more likely to fuel a renewed congressional spending binge rather than eliminate the deficit. Even if the funds were applied to deficit reduction, those critics say, Congress would hardly be likely to repeal it once the budget was balanced, and it would become a permanent source of financing for expansion of government programs.

For small business, the problems with a VAT stem not only from its potential to sharply increase Washington's share of the economy but also from its maddening complexity.

A look at how a VAT works in Great Britain suggests why small businesses in America would oppose any attempt to impose one. VAT was introduced in Great Britain in 1973 and has now become an accepted—if not particularly popular—part of life for consumers and businesses alike. It is just what it proclaims to be: a tax levied on the value of products as the value is added.

Typically, a VAT is included in the total price that a seller gives to a buyer, unlike the American-style sales tax, which is added at the cash register. So, although the VAT increases the price of a product significantly, it is not as noticeable to the buyer as the sales tax.

Because most companies are entitled to reclaim from the government the VAT that they have paid to suppliers, those who actually end up paying the tax generally are the consumers at the end of the chain.

Britain's 15 percent VAT may seem high to Americans accustomed to sales taxes ranging from 4 to 8 percent. But it is moderate compared with VATs in other European Community nations. In Ireland, for example, the VAT is 25 percent; in Denmark, it is 22 percent.

For the governments concerned, the benefits are obvious. Among European Community nations, VAT supplies from 13 percent to more than 20 percent of a nation's total revenues.

But what of the businesses that must collect the tax?

The VAT in Britain is a merry-go-round of paperwork in which businesses constantly pay a VAT on new purchases and then reclaim the payments from the government.

Tony Miller, an accountant who is VAT chairman for Britain's National Federation of Self-Employed and Small Businesses, says it is this scheme of paying taxes and reclaiming payments that makes Britain's VAT little more than an inefficient sales tax levied at the retail level. He maintains that it would be far better if companies were exempt from paying a VAT until the final sale to the consumer.

Miller also notes that in many instances, businesses must jump through the reporting hoops, yet the government ends up with nothing at all, even from the consumer.

Take the paper bag, for example. VAT collections and credits are made at all levels of paper production—the lumber, the pulp, the paper itself. Then the manufacturer of the bag pays a VAT on his product. So do the wholesaler and the retailer.

Then the consumer buys something from the retailer and has it put in a free bag on which—because it is free—no VAT is due. The government receives nothing, but look at all that paperwork.

Similar exercises in apparent futility occur with exporters. Imagine the VAT transactions that take place in Britain on the production and sale of a Rolls-Royce. If the car is sold abroad, however, the buyer is exempt from the VAT. So the government gets nothing.

In addition, there are situations in which some things are exempt from the VAT and similar products are not. Biscuits (the kind that Americans call cookies) and potatoes are exempt from the VAT, for example, because they are classified as food, but chocolate-chip biscuits and potato crisps (potato chips) are not exempt because they are defined as luxury goods.

Moreover, until recent changes in the collection system, Britain's VAT used to be particularly difficult on some small businesses. As originally enforced, VAT operated against invoices, meaning that the VAT had to be paid by businesses even if their customers had not yet paid their bills. Some smaller businesses—those with smaller budgets—had to borrow money to pay the government before eventually getting it all back in a VAT refund.

That procedure was changed in 1987. For small businesses, VAT now can operate on a cash-received basis, but the initial requirements and the remaining paperwork burden spotlight the problems that a value-added tax can cause for small firms. **NB**

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It's Show Time For Business

By Steven S. King

If a picture is worth a thousand words, what's the worth of a well-produced videotape presentation? Companies using video in sales, customer relations, in-house communications, hiring, training, and other areas say the results are measured in more cost-efficient marketing, an improved company image, and a competitive edge.

At Beltone Electronics Corp., a Chicago-based manufacturer of hearing-test equipment and hearing aids, George Markham, director of sales communications, says: "We have a network of 500 independently owned dealerships with enormous needs for training and marketing support. Without videotape, costs would be prohibitive for the high level of attention we give our dealers."

Executives at Beltone also use video in marketing efforts to project an image of a progressive company that uses technology to reach out to dealers and customers in an innovative way. Markham says his custom-made business videos provide a competitive advantage in an industry with more than 50 manufacturers.

Beltone is not an isolated example of a company using video. Video-industry expert Judith Stokes explains: "In 1988, 25,000 nonbroadcast businesses were producing their own videos, spending $3.5 billion on equipment, staff, and video production. These figures will nearly double by 1995." Stokes is the author of *The Business of Nonbroadcast Television,* an in-depth video market study published by Knowledge Industry Publications Inc., of White Plains, N.Y.

Noting the sharp price declines and improved portability and picture clarity of professional video equipment in recent years, Stokes adds: "The industry is past the point where it takes a huge investment to get into video. Today, a company can get a big return on a relatively small investment if it uses video properly to further its business goals.

"Today's adults have grown up being entertained and informed with television. They are willing and able to process information presented through video. In fact, many people are better able to learn from a well-executed videotape than from a book or audiotape." She cites studies showing that visuals can improve learning speed and retention by 70 percent or more.



PHOTO: ©RICHARD DERK

An actor and a producer confer on a script in a studio at Beltone Electronics, where George W. Markham, director of sales communications, turns out videos.

Ideally, video supplements but does not replace face-to-face communications. At Beltone, for instance, ties with dealers are kept strong with regular meetings, both at dealer sites and in the home office. Video will never replace these exchanges, but it can cut expenses for travel to dealerships when some aspects of training, product updating, and management communications can be handled by VHS video cassettes rather than by personal visits.

Other popular video uses in business include:

Corporate Communications. Videos increasingly are used to keep employees abreast of significant corporate events. Video newsletters can show plant openings, new products, conventions, advertising pieces, and other relevant subjects that may not be covered as fully in printed descriptions.

Professional Training. Videotapes designed by in-house training personnel often supplement face-to-face training programs. The many topics for videos in this area range from management techniques to office-equipment tutorials.

Sales Training. Customer-relations skills are mastered with the help of visual feedback, allowing sales trainees to view themselves on videotapes that capture simulated sales presentations. Once trained, salespersons take product-demonstration videotapes on the road to enhance direct sales efforts.

Assembly And Maintenance. In manufacturing plants, videotapes are used to teach workers how to assemble, repair, and maintain machinery. Safety-awareness videos illustrate plant hazards and teach workers safe procedures.

Product Development And Support. To gauge product acceptance, market researchers tape focus groups in which customers are studied as they use new

Steven S. King is a management consultant and free-lance writer in Washington, D.C.

Envision the possibilities: Company videos—produced in-house or outside—that enhance communications with production workers, salespeople, dealers, and customers, cutting various costs and improving your firm's image.



products. After a product hits the market, video training tapes at point-of-sale or at the customer's location teach purchasers how to use products that range from electric toothbrushes to tractors.

Personnel. Human-resources departments are using videotapes as recruiting tools to convey an organization's philosophy and spirit. Orientation procedures for new employees may be supplemented with videotapes as well.

Although video presents advantages in many business applications, building an in-house video department is a challenging undertaking. Margaret Munroe, eastern regional director of the Audio Visual Management Association, says: "Don't go out and buy a bunch of equipment before you know what you're doing. You can do it cheaper in-house, but it's better to use outside [video] production houses until you learn something about the industry."

In fact, it may not be necessary for your company ever to have an in-house department. Independent video houses can plan, shoot, edit, and duplicate videos to a client's specifications; they charge $100 to $400 per hour.

Many types of involvements are available. Some companies shoot videos themselves and then hire production houses to edit them and add special effects. And many small businesses, typically those that use videotapes simply to describe a product or service to a potential customer or for employee orientation, either hire a production house to produce what they need or purchase a suitable videotape.

(Companies also can buy from a long list of off-the-shelf motivational tapes. The Resource Group in Boston [1-800-225-3959] is a major supplier of motivational tapes. It stocks over 1,000 VHS titles on subjects such as management supervision, time management, team building, interviewing skills, business writing, equal-opportunity employment, and sexual harassment.

(Another example of business information now in video is "Franchising: How to Be in Business for Yourself—Not by Yourself," recently released by the *Nation's Business* Video Division, 1615 H Street, N.W., Washington, D.C.; 1-800-547-9797. It is available in VHS or Beta for $49.95 plus sales tax and $3.95 for postage and handling.)

The approach your company takes will depend on various factors, such as how often you need to use video, your staff's technical know-how, and the importance to your company of the strategic edge that an in-house department can provide. But whatever your company's approach, you will want to have someone on staff who is knowledgeable about video and can work with the outside production house or manage the in-house department.

Once a video is produced and duplicated, it must be viewed conveniently by its intended audience if the video is to be effective. The standard for corporate video viewing is the VHS format, which is also the format for most home videocassette recorders (VCRs). A few companies use Sony's Betamax for viewing, however, and even fewer use 8-millimeter equipment.

For larger rooms, there are so-called three-gun video projectors that can display video images 100 or more inches wide. Almost any office with a blank wall and a power outlet can be turned into a large-screen viewing room through the use of lightweight, portable video projectors using LCD technology—the kind of liquid crystal displays used in flat-screen portable computers—that are just coming to market.

Because the industry has produced a dozen videotape formats in just a few years, even businesses that decide to hire a video production house rather than purchase videotape equipment would do well to learn about the industry. How you intend to use the finished product determines how it should be produced. Although confusing to users, the multiplicity of formats—VHS, Betamax, MII, 8-millimeter, U-matic, Betacam, and so on—is a natural result of wave after wave of technological advances in a highly competitive industry.

The video-equipment marketplace is further complicated by its overlapping segments of equipment: consumer; the better industrial, or professional, grade; and broadcast, used in teleproduction studios.

Consumer VHS camcorders, combining a camera and a video recorder in one unit, are adequate for many business purposes, such as documenting key events. A VHS camcorder costs less than $1,000, and its tapes may be viewed with inexpensive VCRs.

Businesses that use video for more than simple documentation may exceed the capabilities of consumer-grade equipment, however, and they should consider industrial product lines. Industrial-quality video equipment generally is not sold at consumer outlets but may be purchased from dealers who cater to the video professional. Industrial lines are more rugged and have better picture quality than consumer lines.

If you can afford industrial equipment, buy it, says Peter Utz, director of an audiovisual program at Morris County College, in Randolph, N.J. He has written more than 100 articles and several books on the video industry and its technology, and he lauds the benefits of industrial equipment. "It may not have the bells and whistles of the consumer stuff, but it will last longer and give good service."

In response to demands for video with higher resolutions (a sharper, more detailed image), JVC Corp., the developer of VHS, has introduced Su-

It's Show Time For Business

In the control room at Beltone Electronics, Producer/Director Ellen Bluestone views broadcast-quality 3/4-inch videotape.



PHOTO: ©RICHARD DERK

per-VHS, a higher-quality format that also uses ½-inch tape. Utz is enthusiastic about Super-VHS. "For the industrial videographer, it is the most important development in years," he says.

Videotape shot with a Super-VHS camera and played back on a Super-VHS VCR gives a dramatically sharper picture than standard VHS. These high-resolution cameras and VCRs are available from most major video manufacturers, including JVC, Panasonic, Olympus, and Canon.

Super-VHS improves picture clarity when viewed on a conventional television set or monitor, but to achieve the full effect, a Super-VHS-capable display is needed. High-end (high-quality, high-cost) televisions from Magnavox, RCA, NEC, Sony, and others are now being shipped with Super-VHS connectors—referred to as S-Video inputs—which make the sets compatible with both Super-VHS and the old sets. A Super-VHS monitor costs $600 to $2,000. When it is used with a Super-VHS VCR, it displays a picture with about 50 percent more detail than a picture on conventional VHS equipment.

The VHS format (along with Super-VHS) is the dominant format for consumer and low-end professional equipment, but it is by no means the only format for business applications. Sony's ED Beta format has better resolution than Super-VHS but is not widely used, and it is unlikely that the average viewing location will have Beta playback viewing capability.

Sony recently enhanced its 8-millimeter format for corporate desktop video applications. The 8-millimeter format provides excellent picture quality with small, lightweight camcorders and playback equipment that fits easily on a desk. These products are designed for business applications in which space is limited, such as in retail floor displays or in executive offices.

Super-VHS increasingly is used for sophisticated video applications that require editing and special effects, but the high-end professional videotape industry is dominated by Sony's U-matic equipment—a 3/4-inch videotape format. Conrad Coffield, a Sony product manager, says, "We estimate that, today, there are 250,000 U-matic tape machines used in the U.S. alone." U-matic facilities are also found widely in Europe and around the world.

Sony is the largest supplier of U-matic equipment, but JVC also has long involvement with the format and manufactures compatible equipment. U-matic cameras and video recorders can be found in most TV stations and video production houses, as well as in many schools, companies, and government agencies.

Because of its low cost, portability, and high picture quality, Super-VHS is starting to penetrate U-matic's traditional markets. An industrial Super-VHS system with camera, two decks, and editing capability may be purchased for $20,000; a basic U-matic production system costs $25,000 or more. For small businesses, an entry-level Super-VHS system that's adequate for making simple training or marketing videos costs less than $10,000.

Video of the highest clarity is produced on open-reel 1-inch tape decks, found in large teleproduction studios and manufactured primarily by Ampex, Sony, and Hitachi. Videotapes recorded on 1-inch systems can be copied many times with little degradation, making them ideal for productions involving extensive editing.

Recent advances in video technology have produced two new ½-inch formats that rival the picture quality, if not the editing capabilities, of 1-inch equipment. These formats are marketed under the names of Betacam (Sony and Ampex) and MII (Panasonic and JVC). Betacam has been out longer than MII and is a more mature technology. Though it is new, MII has gained key advocates. NBC shot the 1988 Olympics in Korea with Panasonic MII equipment.

Although pieces of equipment with different formats are generally incompatible, some can work together. JVC and Panasonic, sister companies under the parent Matsushita Inc., are pioneers in multiformat integration systems, which allow different formats to coexist.

With such a variety of equipment on the market, and with technological advances certain to continue, it is easy to become enamored of video hardware and hard to keep pace with its development.

Peter Utz predicts that the coming digital video technology will open up many new niches for small video facilities that specialize in new, sophisticated forms of video production. But he cautions that "it's a lot easier to buy equipment than to use it effectively."

Ranging from compact, low-cost, 8-millimeter to futuristic digital formats, the array of products on the video market and in development means businesses may find that video is as challenging to evaluate as a new phone or computer system.

The good news is that, with so much variety, all sizes of businesses and all types of needs can be served.

Further, there is not necessarily a correlation between size of business and size of the video investment. As costs for video decrease and capabilities soar, we can expect even small businesses to make relatively large hardware and personnel expenditures as they find that video uniquely meets their communication and promotion needs.

Yet businesses that choose not to buy equipment will not be left out of the video age. Independent production houses can be expected to upgrade their equipment and skills continually.

Video, whether produced in-house or with outside help, is clearly a business communications medium that will expand for years to come. NB

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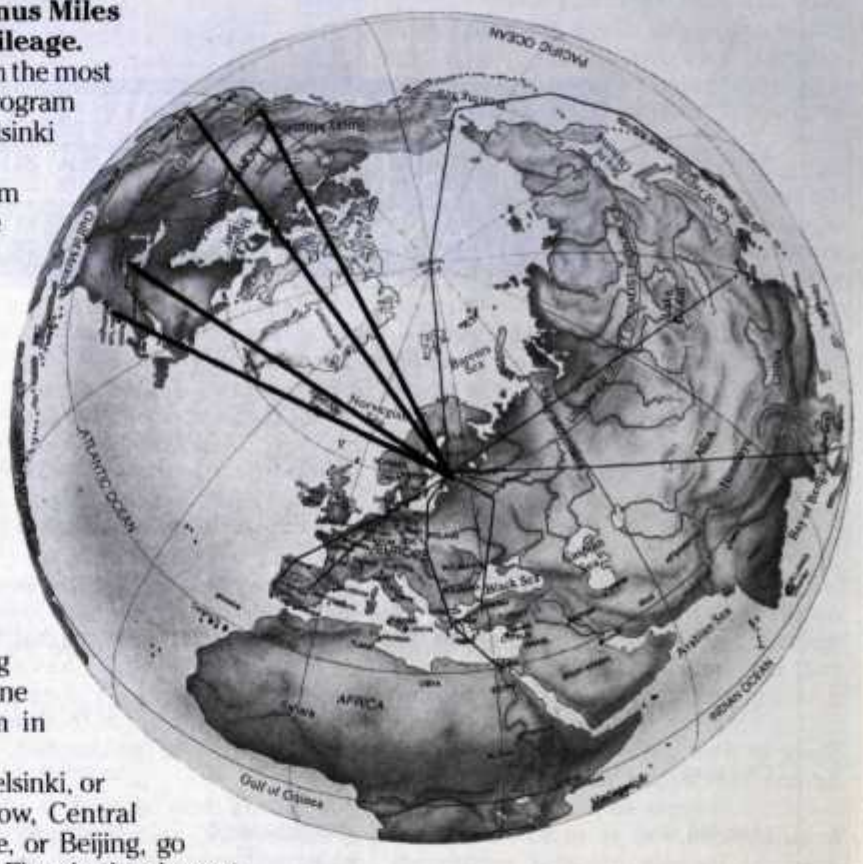
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Greece



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Today's Greece is a center of business activities of all kinds. Domestic and foreign firms are making substantial profits in mining, manufacturing,



PHOTO: ©ROBERT FRERCK—TONY STONE WORLDWIDE



PHOTO: EMBASSY OF GREECE

agriculture, and other industries in the wake of the Greek government's two-year economic-stabilization program, 1985-87.

(First of two parts)

In the minds of many Americans—business people and the general public alike—the mere mention of Greece conjures up thoughts of indescribably beautiful island beaches, bustling cities, and classical and Byzantine art treasures. And those are appropriate thoughts. Greece, in fact, is a land rich with scenery, culture, and history.

But Greece is much, much more than an exotic destination for tourists.

Today's Greece is a nation preparing itself for the vast economic challenges and opportunities presented by the European Community's internal market unification, in 1992. This preparation, which is supported by all segments of Greek society, is based on the mobilization of all national resources, in both the private and public sectors. Greece's preparations for 1992 should be of more than passing interest to American business people. Events in Greece today present U.S. business people with tremendous investment and trade opportunities.

Great Economic Strides

To understand fully where the Greek economy stands today and where it is going tomorrow, it is essential to look back at the nation's political and economic state of affairs in the early 1980s. In 1981 Greece

G R E E C E





Like other agricultural products in Greece, tomatoes are harvested on a large scale. The government has plans for upgrading the agricultural sector.

PHOTO: ©CYNTHIA FOSTER—FOLIO

became a full member of the European Community (then, the 10th member).

At the same time, the Panhellenic Socialist Movement (PASOK) of Prime Minister Andreas Papandreou came to power with a mandate (the party captured 180 seats in the 300-seat Greek parliament) to overhaul many of the nation's economic and social institutions.

However, this social engineering had its economic costs. During the early 1980s the nation's budget deficits, rates of inflation, and current-accounts deficits all rose to levels finally deemed unacceptable by the PASOK government and incompatible with the smooth integration of the Greek economy into the EEC.

So, in 1985, Papandreou instituted a two-year stabilization program. The goals of this austerity program were clear-cut yet difficult: Eliminate macroeconomic imbalances and establish conditions conducive to a return to sustainable, noninflationary economic growth.

The government employed all the traditional tools of economic management in this big effort to slow down the growth of incomes and curb public-sector borrowing in order to cool off inflation and to reduce the Greek trade deficit. And the results of this stabilization program have been nothing short of remarkable.

Likely the most important achievement of the program is in the area of the balance of payments. In 1985, Greece's current-accounts deficit was a crippling $3.27 billion, about 10 percent of gross domestic product. For 1987, according to the Greek Ministry of National Economy, that deficit was down to $1.29 billion, about 2.5 percent of gross domestic product. And last year the current-accounts deficit was down to just below 2 percent of gross domestic product, or $1 billion. While the sheer magnitude of this reduction is significant, even more important is the fact that the current-accounts deficit is exceeded now by the inflow to Greece of nonloan capital, an estimated $1.8 billion last year.

Almost as impressive is the fact that the stabilization program succeeded in reducing the inflation rate from about 25 percent in 1985 to less than 16 percent in 1987 and about 13.5 percent in 1988. Also, the program has led to an unemployment rate of just over 7 percent, which is one of the lowest among European Community members, and an economic growth rate of about 2.5 percent a year and climbing.

The intangible benefits of the program also are being felt now in Greece. For example, the nation's business people, now making healthy profits and watching the values of their companies' stocks rise, have gained confidence in their economy and are moving forward with investment and expansion plans. The real incomes of workers, whose cooperation on wage and work rules were essential to the success of the stabilization program, have started rising again, and they have realized that moderation is essential to long-term security and prosperity. And even the government acknowledges that it has learned a valuable lesson: As Minister of National Economy Panayiotis Roumeliotis said it, the government's economic role should be to support private enterprises.

In all, the stabilization program seems to have Greece headed toward a long period of economic stability and noninflationary growth, likely in the range of 3 percent to 3.5 percent a year.

From Stabilization To Growth

After the two years of adjustment, in 1988, the government decided to pursue a more flexible economic policy which was designed to strike a balance between the need for strengthening the development process, the need for further progress in reducing existing macroeconomic balances, redressing structural rigidities and to help businesses and workers alike take advantage of the opportunities arising from the new, more stable and vibrant Greek economy, according to Mr. Roumeliotis. New supply-side reforms are principally in the areas of tax and monetary policy and privatization, according to Yannos Papantoniou, deputy minister of national economy.

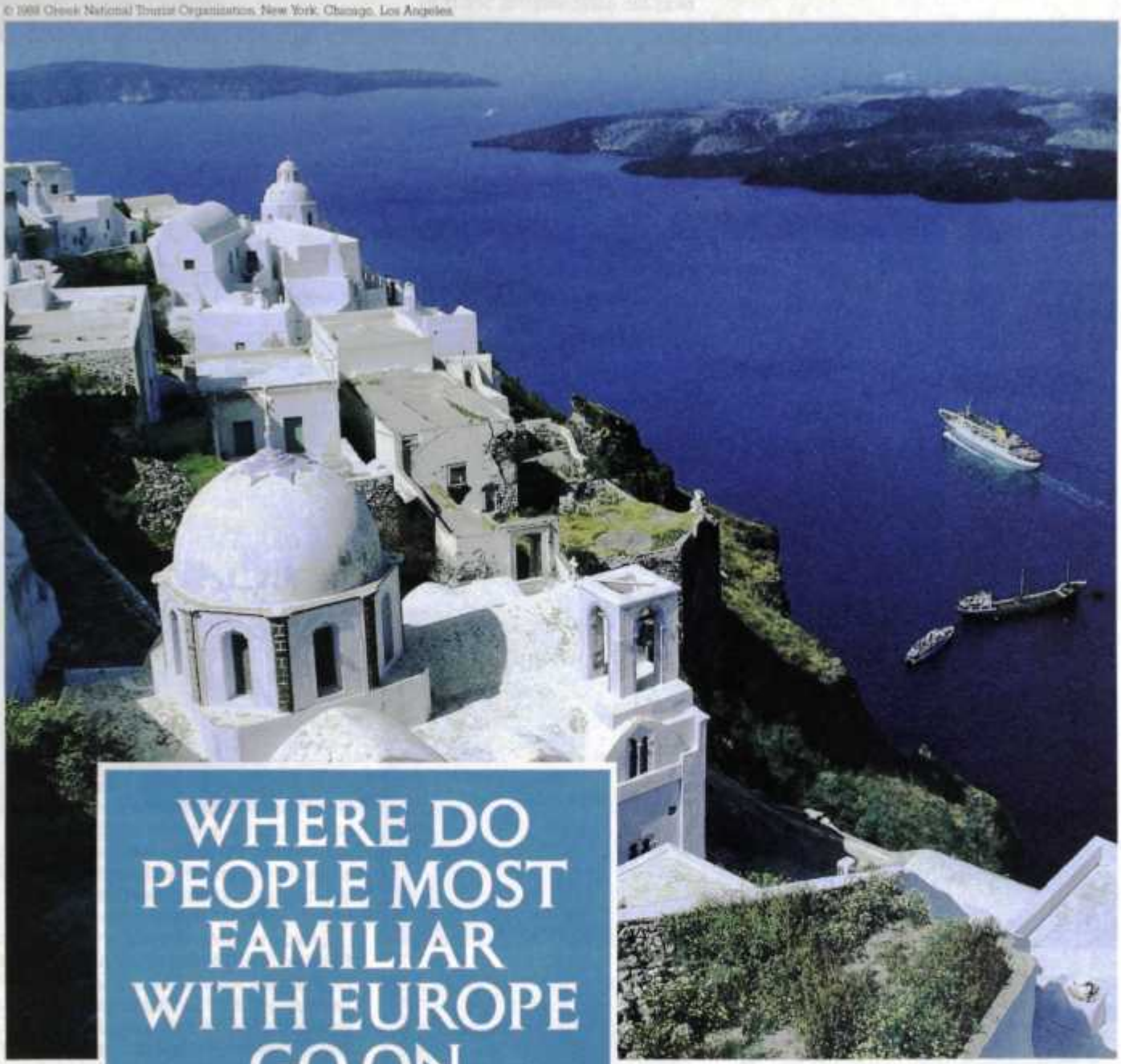
The Greek government vastly simplified its indirect system of taxation in January 1987 by introducing a value-added tax similar to the ones in place in most European Community nations. A year later, the government dramatically lowered income and corporate tax rates while it stepped up efforts to crack down on tax evaders. The top rate on all income was reduced from 63 percent to 50 percent.

And at the same time, the government moved aggressively to modernize the Greek banking system by promoting more competition in financial markets, removing credit controls, and increasing the overall effectiveness of monetary policy and introducing new instruments (factoring, leasing, etc.).

Measures adopted in this area, according to Papantoniou, include abolishing the administrative practice of setting lending rates for as many as 60 percent of loans, introducing into the marketplace floating-rate certificates of deposit, ending the practice of allocating a predetermined fraction of deposits to the finance of fixed investments, and increasing the reserve requirement for special time deposits. Also, the government has raised the rates of interest on Treasury bills, to make them attractive alternatives to bank deposits.

Perhaps of greater importance to domestic and foreign businesses, according to Papantoniou, the government is implementing restructuring programs designed to return to profitability many over-indebted and currently money-losing enterprises of the public and private sectors. This restructuring, he says, is especially important to freeing resources that can then be applied to the advanced-

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GREECE

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G R E E C E

As you would expect of a nation of islands, shipping and fishing are among Greece's most vibrant industries.



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technology sector. Mobilization of capital is being eased greatly by Greece's rapidly expanding stock market. And new laws modernizing this market, he says, should enhance still further the past few years' spectacular growth and make portfolio investments increasingly attractive savings options.

The Role Of Foreign Investors

From Prime Minister Papandreou down to the lowest-level minister, officials of the Greek government acknowledge that their efforts at preparing the nation's economy for the challenges of European market unification will fall short unless they are complemented by efforts of the Greek and foreign private sectors. With this in mind, the government has launched intensive efforts to inform foreign firms, especially in the high-technology area, of profit-making opportunities available to them in Greece.

Here are seven key reasons why foreign firms should consider doing business in Greece.

1. Strategic Location. For centuries, Greece has been the commercial and trade crossroads of Western and Eastern Europe, the Middle East, and North Africa. Greece's membership in the European Community allows businesses locating there to send their products tariff-free to an affluent marketplace with more than 320 million customers, and to the markets of the above mentioned regions. Specifically, enterprises located in Greece can take advantage of their proximity to Eastern European markets, which, due to new economic conditions for consumer and light capital-equipment products, are expanding rapidly. Also, Greece maintains good overall relations with the Arab world, which, in addition to the proximity factor, helps enterprises to penetrate these markets. Finally, communities of Greek immigrants in black African countries can help significantly in trying to establish market shares in these countries.

2. Quality Work Force. About 1 million Greeks work in the manufacturing sector now. English is a second language for most managers and technicians, engineers are readily available, while more and more business specialists are graduating every year from Greek universities.

Greece features wage rates (1987, $4.00 per hour) substantially below those prevailing in West Germany, Italy, France, and Spain (1987, $7.79 per hour). Greek workers have a favorable record in the area of time lost to strikes. Thousands of well-trained workers, technicians, and managers are returning to Greece after employment in northern Europe's industrial centers and also in North America.

3. Abundant Natural Resources. Greece is a land blessed with an abundance of raw materials. For example, it has more bauxite than any other country in Western Europe, and it has vast reserves of ferro-chrome and ferro-nickel, which are used in making stainless steel.

Greece's abundant lignite is being tapped now as a low-cost energy source, and the country's off-shore oil is being developed extensively.

4. Extensive Transportation Network. As you would expect of a nation that has been a maritime power for centuries, Greece features excellent cargo connections with Europe, the Middle East, and North Africa through no fewer than three major ports. The Athens airport, one of the busiest in the world, provides easy passenger and air-cargo access to all key points of the globe.

Foreign firms investing in Greece will benefit from an abundance of low-cost energy, which is derived from sources as diverse as the sun and nuclear fission.



PHOTO: EMBASSY OF GREECE

5. Efficient And Extensive Support Services. Greece's comprehensive banking system, which consists of 50 banks (both Greek and foreign), includes branches of major American, Canadian, and European financial institutions. The Agricultural Bank of Greece, the Commercial Bank of Greece, the Hellenic Industrial Development Bank, and the National Bank of Greece, currently owners of the Hellenic Development Corp., provide medium-range and long-range financing to qualifying investors, permitting them to borrow in drachmas, the Greek currency, and export in their native currencies. Transportation, telecommunications, and other essential business services also are readily available nationwide.

6. Inexpensive Energy. Greek development efforts include intensive efforts to expand its energy resources. A key strategy is maximum development of the nation's abundant reserves of lignite, coal, hydroelectric power, and solar energy and oil reserves. Also, natural gas will provide energy for industry as well as houses some years from now.

7. Strong Incentives. Nothing better illustrates Greece's determination to attract foreign investors than the package of incentives provided, mostly adjunct to two key statutes, Law 2687/53 and Law 1262/82.

The former law provides protection for foreign capital and permits repatriation of foreign capital, profits, and royalties on new productive investments, provided they have been approved by the Bank of Greece. It also guarantees that terms of project approval are irrevocable.

The latter statute provides investors with a choice of two sets of incentives.

The first comprises government grants, interest-rate subsidies, and higher depreciation rates; the second, a combination of tax allowances and higher depreciation rates.

The two other pieces of legislation, Presidential Decree 207/87 and Act of the Governor of the Bank of Greece 825/86, concern only the terms for the movement of foreign capital, from member states of the EEC and other countries respectively.

However, the fact that both pieces of legislation were issued in implementation of relevant EEC directives designed to bring into line the legislation of member states on issues relating to the treatment of foreign capital means that—although they do not expressly state so—they contain tacitly the guarantees towards foreign capital of the Treaty of Rome.

Presidential Decree 207/87 introduced complete freedom into the movement of capital imported into Greece from the other member states of the EEC for the financing, inter alia, of productive investments. More specifically, the profits from the investment and interest payments necessary to service overseas borrowing may be exported without limitation as to time or amount. The free exporting of the product of liquidation of the investment is also permitted.

In the case of capital imported into Greece from non-EEC countries and destined for the financing, inter alia, of productive investments, Act of the Governor of the Bank of Greece 825/86 permits the free export of profits and interest. The only restriction it imposes is on the exporting of the product of liquidation of the investment, which may not take place until three years have passed since the date of import of the capital.

Grants are provided to new projects, which range from 10 percent to 50 percent of the total investment cost, and which depend on the location and the type of the proposed project.

Interest-rate subsidies are from three years to six years, depending on the type and the location of proposed projects.

Under the tax-allowance provisions, investors may deduct from net profits tax-free amounts ranging from 40 percent to 70 percent of investment value, depending on location.

Under accelerated-depreciation rules, investors are entitled to write-off at rates ranging from 20 percent to 150 percent, depending on project location and the number of jobs created.

Additional incentives for foreign companies producing in Greece for export include:

- Exemption from all duties on imported raw materials, machinery, and fuel.
- Exemption from payroll and turnover taxes.
- Reduction of social-security contributions.
- Insurance up to 80 percent of the value of exports.
- Free zones for light manufacturing and warehousing.

Opportunities Abound

These incentives already have spawned an ever-rising amount of new investment in Greece. Last year, total private investment there shot up almost 38 percent from a year earlier, from $104.6 billion to $144.6 billion, resulting in some 110,000 new jobs.

The increase in foreign-investment applications has been even more spectacular, nearly sixfold over its 1985 level, from $37 million to $210 million, due mainly to the essential liberalization of foreign-capital movement since 1986.

(Next, a survey of specific investment opportunities, a discussion of export and import possibilities, and a look at Greek tourism.)

LESSONS OF LEADERSHIP

A Fresh Start After 40

Skeptics told Sidney Port 37 years ago his idea for a new company wouldn't succeed; this year his firm will generate $170 million in sales.

By Roger Thompson

By the time Sidney Port hit middle age, he had abandoned one career, lost a second one, and had settled uneasily into a third.

First, he earned a law degree during the Depression, but he didn't like the work. Next, he started a publishing company, but prewar paper rationing in the late 1930s choked it off. He then went to work for his father-in-law, but he still longed to make it on his own.

Not that he didn't do well at his father-in-law's company, a distributor of auto parts. In 12 years, he rose from salesman to executive vice president. But he worried that the business had an uncertain future, a concern that weighed all the more heavily as he watched his three small children grow.

In 1952, when he was 41 and his oldest child was 12, Port walked into a major Chicago bank and asked for a line of credit to launch a company that would supply replacement and repair parts for business equipment. A bank officer dutifully took a full day to consider the request—then turned him down. In the bank's judgment, Port's venture would collapse in six months.

Little wonder. Port envisioned a service business where none had existed before. He looked at businesses' need for repair parts for their various types of equipment, and he asked, why not create a kind of door-to-door industrial hardware store? The bank looked at his idea and asked, why bother?

Port ignored the advice, secured his credit at another bank, and, with $30,000 in seed money from his father-in-law, went on to build a company that will generate an estimated $170 million in sales this year. He named it Lawson Products Inc., after Victor Lawson, a publisher and philanthropist in Chicago during the first half of the century.

The company's 1,300-member sales force now markets more than 20,000 repair and maintenance parts, fasteners, chemical supplies, welding rods and supplies, fittings, electrical supplies, and shop materials. Lawson Products today is the largest independent



Sidney Port confers with order processor Ruth Rivera in the 60,000-square-foot Des Plaines, Ill., headquarters warehouse of Lawson Products Inc.

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A Fresh Start After 40



Sidney Port enjoys stopping to talk with Lawson employees such as Bea Percy, left, a data-control clerk, and Debbie Glass, who supervises the mail room.

PHOTO: ©RICHARD DERK

national company supplying repair and maintenance parts. The bank that said yes to a young man's dream earned a lifelong customer who, in recent years, has managed a gilt-edged balance sheet. Lawson Products has zero debt, more than $50 million in cash reserves, and net income that has doubled since hitting a three-year low of $12.5 million in 1986.

At 78, Port still puts in a full day at his office in Des Plaines, near Chicago. Although he shed the CEO's mantle 12 years ago, he remains chairman of the executive committee and an active participant in key decisions. He also has maintained controlling interest in the company he founded. The family's 39 percent stake in the firm's stock is worth about $130 million.

Although Port is generous in his praise of the company's management team, it's clear that Lawson Products remains very much his company. During a recent tour of the 60,000-square-foot Des Plaines headquarters and warehouse, he frequently paused to exchange greetings with employees. He knows most by first name. They know him as "Mr. Port." He calls himself the company's "elder statesman."

The hallway adjacent to the company cafeteria is lined with group photos of the sales staff, one for each year since the late 1950s. It's Port's way of paying homage to the people who make the company run. "Salesmen are the lifeblood of our business," he says. "Until they sell an order, nobody does anything." Yet no one at Lawson Products is a second-class employee. Every department has a display board filled with employee recognition awards.

Port firmly believes in developing his employees' strengths, not dwelling on their weaknesses. And he strives to make them feel secure. "You want to give them the peace of mind that they aren't going to be out of a job the first time they do something human, like make a mistake," he says.

He still regrets an error of his own, which he made 12 years ago in the design of the headquarters building. It separates him and company officers from others on the staff. "In our previous building, every day when I walked from the parking lot to my office, I walked through the whole warehouse, and I saw the people who worked there. Here, we're at the end of the building, and you don't get to see the people on the way to your office. And that's a mistake."

Respect for individual talent and initiative has fueled Lawson Products' growth over the years. Port seems to have a knack for hiring the right people at the right time. He knew when he founded the company that he wanted to distribute more than auto parts, but he didn't know how to pick the inventory to begin. So he hired someone who did.

By 1959, Lawson Products was poised to break out of the Chicago area, but it needed an injection of top-notch sales talent. That's when fate delivered to Port's door Chester B. Lynn, an executive of extraordinary sales ability who had just been fired by a Cleveland-based competitor. Within weeks of Lynn's arrival at Lawson Products, six key salesmen from his former employer defected to join their ex-boss. That prompted a million-dollar lawsuit, charging that Lawson Products had enticed the men to breach their contracts.

Port lost the suit and signed an agreement not to poach in the executive offices of his Cleveland competitor again. But he avoided paying any damages, and, most important, he gained a cadre of pros who put real pizzazz into Lawson Products' sales. "From that point on, we really zoomed," says Port. Lynn, who became CEO, died in 1984.

With a winning sales force in place, Port concentrated on recruiting experienced executives to build the company's internal organization in engineering, marketing, and warehousing. It was this group that orchestrated the company's coast-to-coast expansion during the 1960s, when Lawson Products built warehouses in Southern California, Texas, Georgia, and New Jersey.

The company went public in 1970 on the strength of $12 million in annual sales. Now it exceeds that figure every month—which is a strong performance for a company that does not manufacture any of the parts it sells.

Port maintains that manufacturing and distribution are two separate businesses that don't mix.

Distribution is a service business, an area in which Lawson Products excels. The company concentrates on quality, convenience, and customer satisfaction; with nine distribution centers nationwide, it ships 99 percent of all orders within 24 hours.

While Lawson Products has made Port and his family "secure" beyond his dreams, he has never forgotten the lessons of kindness and charity learned from his immigrant parents. Three pages of Port's nine-page biographical sketch are devoted to listing his numerous philanthropic activities, ranging from funding various medical-research endeavors to supporting the widows and children of police and firefighters killed in the line of duty.

Says Port with characteristic understatement: "I've been very lucky. The least I can do is give something back."

Over the years, many have sought Port's blessing to buy the business. He has shown them all the door and reveals no interest in walking away from the company he built. Says Port: "I think it's important for me to stay where I'm happy, and to make a contribution." NB

Section 89: Beyond Repair



By Roger Thompson

The Internal Revenue Service's assurances that newly released rules would ease employer concerns about complying with the employee-benefits law known as Section 89 have failed to blunt increasing pressures for repeal of the massively complex legislation.

The business argument that the law is beyond repair was buttressed by the fact that the IRS needed 154 pages to list rules that it claimed would relieve employer worries about regulatory overkill. (See the following interview with a Section 89 expert for details of the regulations.)

Section 89, which took effect Jan. 1, was designed to deter favoritism toward highly paid employees in health and other benefits; discrimination in coverage can incur heavy tax penalties.

Business argues that the law not only has imposed a crushing paperwork burden on employers but also is more likely to restrict, rather than expand, coverage for lower-paid workers. And the new regulations do not alter that outlook, business experts say.

Karen Berg, manager of human resources for the U.S. Chamber of Commerce, said of the regulations: "No matter how artfully drafted or whatever improvements they contain, they cannot cure this fundamentally flawed statute. . . . The regulations make it obvious that Section 89 will not meet its purported goals of assuring fair distribution of health benefits and expanding health-insurance coverage."

The IRS estimated that the law will add 9 million hours to the annual paperwork burden of the nation's employers. That figure "greatly underestimates" the amount of work involved, said Berg. Howard Weizmann, executive director of the Association of Public and Private Welfare Plans, said, "I want to underscore that that's 9 million *billable* hours." (Billable hours are those for which an employer is paying a lawyer, consultant, or other outside source of assistance required to deal with the complexities of Section 89.) Weizmann called the regulations "simply unworkable."

In a related development, House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., faced with mounting business and congressional pressure for repeal of the law, conceded that he would at least agree to simplification, which he has resisted strongly. "We need to find some recommendations from both the public and private sectors on how to simplify" the maze of nondiscrimination tests imposed on employers by the law, Rostenkowski told a meeting of the National Council of State Housing Agencies on March 2.



PHOTO: ©PAUL GERO—SYGMA

Consultant Harry Conaway, who helped draft Section 89 rules when he worked for the U.S. Treasury Department, now helps companies comply with the complex benefits law.

At the same time, the powerful chairman of the House tax-writing committee not only reiterated his steadfast opposition to the Section 89 repeal effort now under way on Capitol Hill but also issued what business considers a threat—a declaration that he will counterattack the repeal effort by raising the question of taxing all fringe benefits.

A repeal measure introduced by Rep. John J. LaFalce, D-N.Y., chairman of the House Small Business Committee, now has more than 175 cosponsors. An aide to the congressman predicted that a majority of the House's 435 members would sign on as supporters of the repeal bill within a few weeks.

The reasons for the regulations' failure to dampen repeal sentiment were evident in remarks by James J. McGovern, IRS assistant chief counsel, in announcing the rules at a news conference. He said in presenting the 154-page document on implementation that the agency has no plans to issue booklets or other materials to help businesses comply with the complex benefits law. Nor are there any plans to establish a telephone hot line to answer questions.

Moreover, the regulations do not deal with some of the most difficult compliance issues created by the statute: leased employees, multiemployer plans, separate lines of business, and group term life insurance.

Section 89, enacted as part of the Tax Reform Act of 1986, creates a bewildering set of nondiscrimination rules that employers must meet when they give their employees health and other benefits, such as group term life insurance. In the event that these requirements are not met by the employer, highly paid employees will be taxed on the so-called discriminatory portion of their benefits.

In addition to the nondiscrimination tests, the law creates certain qualification rules that must be met if the plan is to receive tax-favored status. Failure to satisfy these rules will result in employees being taxed on portions of benefit reimbursements provided under their plans.

In writing the antidiscrimination features of Section 89, Congress wanted to ensure that tax-favored employee benefits are not provided in a discriminatory manner to executives and managers, to increase the amount of health insurance provided to rank-and-file employees, and to extend benefits to some of the workers not covered by health insurance.

Employers argue that the law is, in effect, a back-door effort to tax employee benefits and that it will have little or no impact on expanding benefits to the rank-and-file. The experience of consultants who are helping business clients comply with the law seems to bear this out.

Glen Armand, vice president of the Hauck Companies in McLean, Va., says he has conducted Section 89 compliance



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tests for about 100 companies. Of those, all but two failed the nondiscrimination tests. In no instance did an employer opt to expand benefits to lower-paid employees to rectify the problem. Rather, they chose to report the "discriminatory excess" as taxable income to the highly paid or, in some cases, to cut benefits to the highly paid. "I'm not sure this law is doing nonhighly compensated employees any good," says Armand.

What's In The Regulations?

Harry Conaway knows the Section 89 regulations better than almost anyone. He helped to write them when he was an associate tax legislative counsel at the Treasury Department.

Conaway left the department recently to join the Washington, D.C., office of the consulting firm of Mercer Meidinger Hansen Inc., where he is a principal and member of the firm's national legislative and regulatory resource group. He stays busy these days helping business clients figure out how to comply with Section 89.

In an interview, Conaway said that transition rules in the regulations will help cushion Section 89's impact on business during this first year of enforcement.

Moreover, a certain compliance shortcut tailored to the circumstances of federal, state, and local governments and some large companies may benefit those employers.

Nonetheless, Conaway expressed doubt that the law would achieve its goal of expanding health-insurance benefits to those who have inadequate coverage or none at all.

Following are excerpts from Senior Editor Roger Thompson's interview of Conaway.

How can business comply with such a complex law when regulations weren't released until two months after Section 89 took effect?

In recognition that the regulations were late, certain transition rules in the regulations contain relief for 1989. Perhaps the most important is the reasonable and good-faith compliance standard. In general, if an employer makes a reasonable and good-faith effort to comply with Section 89, the employer will be treated as having satisfied the law until 1990—notwithstanding the regulations.

The idea was not to punish employers who tried to comply early, which would have meant rewarding those employers who deferred action.

Are there other transition rules affecting Section 89's impact this year?

Yes. There are three additional major transition rules:

First, the effective date for compliance with the Section 89(k) qualified-plan requirements is deferred until 1990. [The qualification rules require that a plan be written, enforceable, permanent, and maintained for the exclusive benefit of employees. Further, employees must be notified of benefits.]

The only exception to deferral is the notice requirement. It must be satisfied by July 1, 1989.

Second, the regulations provide a transition rule under which benefit changes before July 1, 1989, do not have to be taken into account when conducting the law's nondiscrimination tests. In effect, this permits testing to occur on a half-year basis. From an administrative perspective, this should significantly reduce the burden in the first year.

Third, another transition rule permits an employer to opt out of the 75-percent benefits test by treating as taxable income the health coverage provided to the top 20 percent of the highly paid, or the top 1,000 highly paid employees, whichever is less. [The 75-percent test requires that employees who are not highly paid must receive an average benefit at least 75 percent as valuable as the average benefit for highly paid employees.]

Will many employers find this alternative to conducting the 75-percent benefits test helpful?

I think there are many employers who aren't going to be anywhere near ready to run the nondiscrimination tests in any accurate fashion this year. And they may well choose this alternative for 1989. It is far simpler and more cost-effective than to run a full-blown, 75-percent average-benefit test.

Under the regulations, are rank-and-file employees still subject to taxation on the full amount of health benefits received when their employer fails to maintain a qualified plan?

No. A special 89(k) rule caps the amount subject to taxation. The limita-

tion is based on an employee's salary and is indexed to reflect inflation. The taxable limit for those earning less than $54,480 equals 10 percent of their actual salary, 25 percent of salary between $54,481 and $108,960, and 75 percent between $108,961 and $163,440. Those earning more are subject to taxation on the full amount of the benefit received. Under this rule, for example, there won't be any $20,000-a-year janitors being taxed on the $100,000 in medical benefits received for open-heart surgery.

Many employers haven't yet taken the first step toward compliance. Now that the regulations are out, are they already in violation of the law?

No. Employers haven't missed any deadlines yet. That's the main reason the effective dates were delayed for the 89(k) qualified-plan rules. Originally, the qualified-plan rules were to take effect Jan. 1, 1989. Without this delay, many employers already would have failed.

Will Section 89 force employers to redesign their benefit plans?

One of the nice things about Section 89 is that it doesn't require any change in health-plan design. It only governs the tax treatment of health benefits. So employers really don't have to do anything in response to Section 89 other than apply the rules to determine the taxability of coverage. Employers who haven't done anything about compliance yet are going to have a lot of work ahead of them to determine what the excess benefit is. But no employer has yet failed the nondiscrimination tests either.

How much revenue will Section 89 generate?

The initial estimate was around $300 million for the first two or three years. It's my guess that the numbers are going to be significantly greater. There is a lot more [revenue to be collected because of] discriminatory coverage, as defined by Section 89, than people originally thought.

What impact will Section 89 have on individuals who do not now have employer-provided health insurance?

The law was designed to expand health-insurance coverage. But I think just as importantly it was a tax-equity rule. There was a recognition that in many cases, Section 89 will not expand coverage. What it will accomplish is to reduce the tax-favored health-benefits coverage going to the highly paid relative to the nonhighly paid.

So it won't expand coverage?

It was recognized that in many cases it will be cheaper for the employer to comply with Section 89 by taxing the highly paid rather than extending coverage to the nonhighly paid. Section 89 thus had a twofold objective. But I think it is probably going to be successful on the tax-equity side and much less successful on the expanded-coverage side.

Doesn't Section 89 impede introduction of cafeteria benefit plans at a time when employees want the kind of choice that such plans offer?

The adverse effect comes from the fact that Section 89 looks at actual coverage. Where the employer sets up an elective plan, he runs the risk that some employees will elect no coverage, low coverage, or different coverage levels. And that complicates testing. In some cases, the highly paid may end up with a discriminatory excess benefit merely because the low-paid elected out of coverage.

But if there was no intent on the part of the employer to discriminate, why is anyone being penalized under Section 89?

The law isn't looking at intent. It's looking at results.

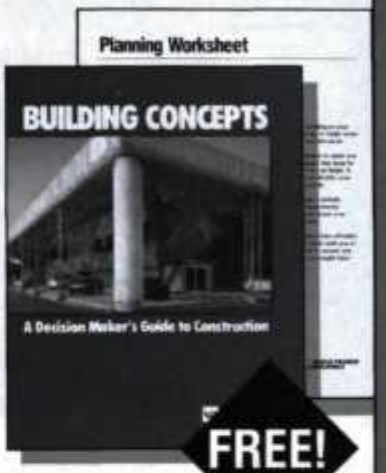
This gets back to the original policy question. The government argues that the reason for tax-favored treatment of health benefits is to expand coverage to low- and middle-income employees. The tax-favored treatment for highly paid employees is not justified unless tax-favored coverage is also being provided to other employees. So the idea is that you can't look at the employer's intent. You should look at whether low- and middle-income employees actually got a tax-favored health benefit.

Now that you are advising business clients on Section 89 compliance, have your views about the law changed?

I don't think most people in government or the private sector who were working on the law fully assessed the real administrative difficulties that would be imposed on business. Since I left Treasury, the difficulties that companies have in collecting data and making Section 89 compliance decisions have become more apparent to me. NB

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Circle No. 7 on Reader Service Card.

Franchising Draws Minorities

For many minority-group members, business ownership through franchising provides a way to control their destinies.

By Meg Whittemore



PHOTO: T. MICHAEL KEZA

Chairman Richard Nicotra says Everything Yogurt's efforts to have at least 10 percent of its franchises owned by minority-group members results in "loyalty, appreciation, and motivation" from franchisees such as Vicky Frazer, one of three partners in the Everything Yogurt in newly renovated Union Station, in Washington, D.C.

Some call it the "invisible white wall." Others refer to the phenomenon as the "glass ceiling." Both terms describe what some members of racial minorities see as a barrier, whether real or imagined, to career growth within companies. As a result, many are changing the direction of their careers, viewing business ownership as a preferred alternative to moving slowly up the corporate ladder.

"Many minorities who have gotten advanced degrees have become frustrated, because only a small percentage of them are able to emerge to top positions," says Aaron Shingler, a minority-franchise consultant based in Lanham, Md. The message that minorities are receiving, he adds, is that owning a business is a way to control your own destiny and that franchising is one way to achieve that goal.

The path to employment freedom led to franchising for Vicky Frazer and her two partners, Nancy Sovann and Elizabeth Nylander. The three women opened an Everything Yogurt franchise in September 1988 in the newly renovated Union Station in Washington, D.C. For Frazer, a partnership made the most sense. "We didn't have the full $225,000 needed to open our franchise," she says. "We each contributed as much as we could, and Everything Yogurt guaranteed the rest."

Everything Yogurt Chairman Richard Nicotra says the franchise helps minorities obtain financing through the Small Business Administration; through Allied Capital, a Washington bank that specializes in SBA minority loans; or directly through the franchisor in the form of a guaranty. Then, Everything Yogurt works with the prospective franchisee to make the franchise work, he says.

Nicotra started his minority franchise program five years ago with a commitment that at least 10 percent of the franchisees would be drawn from the ranks of minorities. Now more than 10 percent of the franchisees are minorities. "It's a little more work," he says, "because it takes more time to cover the legal and accounting/financial aspects of the deal." But, he says, "it's a small investment to make, considering the loyalty, appreciation, and motivation we get in return from our minority franchisees."

Fastframe California Inc., the U.S. master franchisor of a British firm, Fastframe Franchises Ltd., has two minority franchisees among its 35 do-it-yourself and custom framing stores in 10 states. Kathy Davis owns the Atlanta franchise, which last year recorded sales of $100,000.

One of the special services Fastframe provided Davis was helping to negotiate an arrangement with the Kroger supermarket chain to market Davis' new store to its customers. "The opening and subsequent first year went very smoothly," says Davis. Still, she advises other minorities considering buying a franchise to check out their choices thoroughly and know that there will always be some risk involved.

Risk seems to be Kaaydah Schatten's middle name. Cited by the International Franchise Association (IFA) as the only minority franchisor in North America, Schatten runs Ceiling Doctor out of Toronto. A native Indian, Schatten started her business for cleaning commercial ceilings in 1984 after losing $5 million in the Vancouver real-estate market in 1980. "You would think that anyone who had made their first million only to suddenly lose $5 million would give up and find a job," she says. "I couldn't just walk away from being an entrepreneur. So I started Ceiling Doctor."

Schatten began selling franchises three years ago and now has 27 locations in Canada and the U.S. Last year she sold a master franchise in Japan. Schatten says she has worked very hard to overcome negative attitudes toward minority business owners, but "the struggle has been more than worth it."

Self-satisfaction, the ability to earn a good living, and a virtually limitless future are some of the reasons minorities seriously consider the franchising alternative. Because minorities have trained their sights on franchising, more franchisors are making efforts to attract them. And the IFA and other specialized groups have renewed their efforts to educate franchisors on the business benefits of minority franchise programs and to offer practical methods of implementing them.

"We consider the area of minority franchising as very important," says Burgess McCrannie, chairman of the IFA. "We want to be certain that the benefits of franchising reach all levels of our population." NB

Meg Whittemore is a Washington, D.C., franchise writer and partner in More Than Media, a firm that offers writing, broadcast, and placement services to corporations and emerging growth companies.

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Managing Your Lawyer

By Erwin G. Krasnow and Robin S. Conrad

Most business people treat their lawyers differently from other vendors of services and ignore the traditional managerial techniques of supervision, goal setting, budgeting, and other controls. They often do not know who will do the legal work, how much it will cost, or when it will be finished.

This confusion exists partly because of lawyers' priestly mystique and professional mumbo jumbo, and partly because many business people simply do not know how best to use and control lawyers.

In today's business environment, it has become essential for business people to ensure that they are obtaining high-quality legal service at the lowest possible cost.

You will not receive cost-effective service by taking the approach of "let me know when it's over" or even "keep me informed." You have to be involved at all stages—arranging the initial fee, planning and budgeting, and monitoring your lawyer's activities.

Remember that you are the boss. You make the final decisions. Your lawyer is not a guru but a resource available to you in your efforts to compete and prosper in the business world.

The first critical step toward receiving high-quality, cost-efficient legal service is determining when you need a lawyer and then finding the right one. The next step is agreement on the fee arrangements best for you. Here is advice to guide you through those steps.



ILLUSTRATION: BARBARA KINAR—EUCALYPTUS TREE STUDIO

Selecting The Right Lawyer

Start early. All too often, lawyers are called in after the damage has been done—when a company is on the verge of being sued or of compromising valuable legal rights. True, 11th-hour attention from a good lawyer can limit the damage, but it will be too late to keep legal costs low. The most cost-effective service your lawyer can give you is preventive or anticipatory legal advice by identifying potential problems and suggesting corrective measures to avert unnecessary legal disputes. Don't wait for the first hint of a legal problem. Consult a lawyer in your planning stages.

Determine your needs. Are you starting a business, planning a joint venture, renewing a franchise, or suing a competitor? Do you want to trademark a logo or obtain a patent? In each instance, you will want a specialist. Determine the scope of the services you need, what size law firm is appropriate, and whether you should retain more than one firm.

You may need, for example, a lawyer familiar with federal agencies for some matters and a local lawyer for others. Look for an expert in the particular branch of the law affecting your company. Lawyers who are unfamiliar or only marginally familiar with certain areas of the law may not handle them as satisfactorily as specialists. Remember, a nonspecialist probably will take longer and cost more.

Your lawyer is not a guru but a resource available to you in your efforts to compete and prosper in the business world.

Search systematically. Be as thorough as you would be if you were searching for a sales manager or a corporate vice president. Begin by getting recommendations from business associates who have received satisfactory legal service on problems similar to yours. Shop around. Interview the top candidates. Question them closely about the services they provide, their fees, and their results. Check references and credentials; the most comprehensive publication for this purpose is the *Martindale-Hubbell Law Directory*, available in most libraries. Be wary of lawyers' advertisements. They tell you nothing about the quality of the individual's work or the reputation of the firm. Most law firms will give you resumes or brochures describing their practices and listing representative clients and areas of specialization. If such materials are not available, ask for the

Erwin G. Krasnow is a partner in the Washington law firm of Verner, Liipfert, Bernhard, McPherson and Hand. Robin S. Conrad is director of litigation for the National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce.

To find a lawyer whose skills and fees meet your company's requirements, follow this lawyerly advice, and remember that you're the boss.

names of representative clients you might contact.

Hire a lawyer, not a firm. A sole practitioner or a small-firm lawyer might have a small caseload and be able to give you extra attention as well as more attractive fees. Larger firms may be less personal, but they have extensive resources that offer one-stop shopping and the ability to act on short notice. Your company's success on a legal matter depends, however, on the individual lawyers handling it. Select your lawyer first, and then look at the law firm and its resources.

Ask candidates the right questions. Prepare questions designed to reveal each candidate's qualifications for dealing with your particular situation. (See the box on Page 72 for suggestions on specific questions.) As a general rule, avoid lawyers who want to charge for the initial interview.

Look for the right chemistry. Credentials are important, and competence is essential, but don't minimize your visceral reaction to the lawyer you are interviewing. The right chemistry can often make the difference between satisfaction and disappointment. During the interview, pay attention to the lawyer's "desk-side manner." Is it abrasive, unctuous, or just right? Is the lawyer a good listener, confident, and eager to work with me? Would there be open communication? Don't trust a lawyer who does not talk candidly and openly. You should also avoid a lawyer who seems too busy to put the needed time and effort into your case, has had disciplinary problems with the local bar association, guarantees the outcome of your case, is vague about fees, tries to impress you with legal jargon, refuses to provide references, or talks too openly about the confidential business of other clients.

Determining Fees

The standard ways to pay for basic legal services include hourly fees (the most common arrangement), flat or project fees, retainers, contingency fees, percentage fees, and a combination of two or more of those methods. There are also less conventional ways, such as stock in your company. Whatever arrangement you choose, establish an understanding promptly with your lawyer on what it is and what it will cost you.

Here are factors you should consider for the various types of fee arrangements:

Hourly rates. They should be determined in advance not only for your lawyer but also for other firm members working on your case. Ask for an estimate of billable hours and for a budget estimate for each project. Require advance notification of rate changes.

In today's business environment, it has become essential for business people to ensure that they are obtaining high-quality legal service at the lowest possible cost.

Determine the minimum billing period. If it is a quarter of an hour, you could be billed for 15 minutes of a lawyer's time as the result of a two-minute telephone conversation.

Don't be misled by high or low hourly rates; the total bill and the quality of the legal service are the factors that count. Try to negotiate a fee ceiling, but beware of the pitfalls. A low estimate could tempt your lawyer to cut back on services. A high ceiling could produce bills living up to it. At the very least, establish a trigger point at which you should be notified of costs.

Flat fees. Get a clear understanding of what the flat fee covers and does not cover. On routine tasks, compare the proposed flat fee with the estimated hourly-rate cost. Negotiate a ceiling that costs could not exceed.

If the flat fee covers agency or court filings, ask to defer payment until they are completed, thus providing an incentive for timely action.

Retainers. Be aware that there are four types of retainers—case retainers, advances against costs, pure retainers binding a law firm to make its services available, and general-representation retainers, which are fees paid periodically for limited types and amounts of work agreed upon in advance.

Determine in advance which services are covered by your particular arrangement, and insist on a detailed, written agreement. Try to negotiate an hourly rate below the rate for nonretainer clients. Ask for an explanation of the basis for your retainer rate.

Ask whether you will be given full or partial credit next year for retainer payments not used this year. Remember, however, that most retainer arrangements set a fixed fee regardless of whether all the time is used.

Contingency fees. These fees give your lawyer a percentage of any damages you receive; your lawyer does not receive such fees if there is no award. But approach them with caution. A lawyer who becomes a "partner" in litigation necessarily loses some objectivity. A lawyer with a cash-flow problem, for example, might be inclined to recommend a low settlement to meet needs that are not yours. A lawyer dissatisfied with a judgment (and thus the fee based on that amount) may recommend an appeal without being sufficiently sensitive to how much it will cost the client in out-of-pocket expenses.

In many instances, the contingency fee is higher than an hourly-rate bill because the lawyer risks a loss. However, standard contingency-fee arrangements are often lucrative for the lawyer and a bad bargain for the client.

It might be to your advantage to have your lawyer handle the matter on an hourly basis. Get an estimate of the hours needed to handle the case satisfactorily, a conservative appraisal of the probability of success, and the amount of damages you are likely to recover. Compare the bottom line to a contingency-fee arrangement.

If you proceed on a contingent basis, the agreement should make it clear that you, not your lawyer, are in charge of the case and will make decisions on settlement and appeal.

Negotiate a different percentage of fees based on whether your case is settled or tried in court and whether either

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party appeals a court decision. Because some judgments are uncollectible, make sure that the fee is based on the amount actually collected.

Percentage fees. Avoid them as a general rule. They are computed on the basis of the total amount of money or value of property involved in a case and are paid regardless of the outcome. They are common in real estate and probate. Their major drawback is their lack of relationship to the services actually provided or to the skill or amount of time required to provide them.

A percentage-fee arrangement should define the percentage and the amount to which it will be applied. Insist that any costs advanced by your lawyer are subtracted from the base amount, and try to negotiate a declining percentage as the base amount increases.

Stock. Another possibility is to offer stock in exchange for legal services. There are two views on this option. The exchange is attractive to start-up companies short of cash. In fact, it occurs most frequently when the lawyer is preparing a private placement or public stock offering. But even if your company is established, you may want to keep your lawyer's motivation high by giving a stock interest. On the other hand, some lawyers believe any business relationship with their clients could pose a conflict of interest. There is also a risk that you will lose detached, professional advice when you give your lawyer a proprietary interest in your company.

For More Information

This article was adapted from *100 Ways To Cut Legal Fees & Manage Your Lawyer*, by Erwin G. Krasnow and Robin S. Conrad. The 143-page book, published by the National Chamber Litigation Center, covers many details of managing lawyers and legal costs. It is available for $11.95, with discounts for orders of more than 24 copies, from the National Chamber Litigation Center, 1615 H Street, N.W., Washington, D.C. 20062; (202) 463-5337. The toll-free number for credit-card orders is 1-800-638-6582. **NB**

Interviewing A Candidate To Be Your Lawyer

An interview with the person you are considering hiring as your lawyer is a critical stage in the selection process. Here is a checklist of suggested questions to be raised before and during your meeting with a candidate.

Before The Interview:

Will there be a charge for the exploratory session? How much? Will it be credited toward fees?

Do you have or do you expect any conflicts of interest?

Have you or your law firm, in court or before a government agency, taken a position that is inconsistent with my position?

During The Interview:

Do you have clients of comparable size to my company and in a similar industry?

In addition to client matters, what other experience do you have relevant to my situation?

In what areas do you and others in your firm specialize?

Do you have recent experience with cases like mine? What are some examples? What were the outcomes and your fees? Might I have the names and telephone numbers of these clients and your permission to call them?

Why are you particularly qualified to handle my case or legal matter? What special background or expertise do you have that would be useful?

What are the alternative approaches for handling my case or legal matter? Do you foresee special problems?

Will you be doing all the work? If not, will you introduce me to the other people working on this matter? Will you provide the necessary supervision of work performed by others?

How long do you estimate this matter will take?

What are your alternatives for fee arrangements? What fraction of an hour do you use in billing? What is the estimated total fee?

Will your bills identify each service performed, date of performance, and name of persons rendering it?

How might I assist you in handling this case or legal matter?

All In The Family

Despite a new law that thawed the estate "freeze," you can still keep estate taxes low. It just takes a little GRIT and planning.

By Joan C. Szabo

Recent changes in the nation's tax laws may force the sale of many family businesses to pay estate taxes.

"The changes are devastating to entrepreneurs who want to keep a small business in the family," says Matthew Kamens, an estate attorney and director of wealth transfer for CMS Companies, a personal-investment banking firm in Philadelphia.

At the heart of the concern is a tax-code provision—Section 2036c—that was enacted as part of the 1987 Omnibus Budget Reconciliation Act and was made more restrictive through legislation passed last year. The provision effectively eliminates the use of the estate "freeze," which was especially attractive to small-business owners who wanted to minimize estate taxes paid by their heirs when the family firm passed to the next generation. The freeze enabled a business owner to reduce future estate taxes significantly while still enjoying benefits of the company's assets.



PHOTO: © CARROLL SEGHERS—UMPHOTO

You and your estate adviser should examine options and make plans now to minimize the sting of the federal estate tax levied when your business passes to your heirs.

To institute a freeze, the company owner recapitalized the stock of the business and created a preferred voting stock and a nonvoting common stock. The value of the preferred stock usually equaled the value of the corporation and paid dividends at an attractive rate. The value of the common stock was relatively low at the time of the freeze and paid no dividends. The owner gave or sold the nonvoting common stock to family members and kept current value and control. In this way, the family avoided paying estate taxes on any appreciation in the value of the business between the time the stock was acquired and the time the owner died.

Under the new provision, an intergenerational business transfer is taxed at the firm's value at the time of the senior person's death instead of at the date of the transfer. "The law says that if you retain any interest in the transfer of a business to your children, the entire value of the business is included in your estate," says Douglas E. Mollin, assistant director of financial planning for the New York-based Seidman Financial Services.

Richard Hartman, vice president of Benefit Concepts of Colorado Inc., a Denver-based insurance-planning firm for companies and individuals, says: "While the change has destroyed a lot of opportunity, it brings home the fact that small-business owners must be vigilant about estate planning. It is possible to perpetuate a family business forever as long as you do the proper planning." Even though the remaining methods may not seem as enticing as the estate freeze, experts say, they still offer some relief from high taxes.

The federal estate tax begins at 37 percent for estates greater than $600,000 and increases to 55 percent for estates of more than $3 million. The first $600,000 is exempt from the federal tax. (Every taxpayer has a credit of $192,800 on his or her estate, which offsets estate or gift taxes on up to $600,000 of assets.) The exemption is the Unified Transfer Credit, or UTC.

In response to the tax-law change regarding freezes, Kamens says: "Many planners are creating irrevocable life-insurance trusts for business owners who have large, illiquid estates. These trusts, which own considerable amounts of insurance, are removed from the estate and are not subject to estate tax when the business owner dies. The insurance proceeds, payable at the owner's death, provide heirs with funds to cover the estate taxes."

Here is how such a trust would work, says Barry Gimelstob, chief executive officer of the Financial Benefits Research Group, a financial-planning firm in Roseland, N.J.: "The life-insurance trust is the owner and beneficiary of the entire policy; that includes the death benefit as well as the cash value of the policy. The trust could be established so that the corporation pays the premiums on the policy.

"The policy would be collaterally signed to the corporation to secure the return of the corporation's outlay for premiums. When the owner dies, the corporation recovers what it had advanced for premiums, and the trust receives the balance of the face amount of the policy.

"With such an arrangement, the wife, children, or grandchildren could benefit from the tax-free proceeds payable to the trust, depending on how the business owner structures it."

Another effective planning technique for the family firm is a grantor-retained income trust (GRIT), says Mollin. Using this method, the business owner—the grantor—transfers income-producing property to an irrevocable trust. Income from the trust is paid to the business owner during the GRIT's term, which Congress recently limited to 10 years. At the end of that period, the property passes to the beneficiaries of the grantor.

A gift tax may be due on a portion of the amount that the business owner passes on, but it is less than might be expected because the Internal Revenue Service discounts the value of the prin-

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All In The Family

cipal. That is because the children don't receive use of the property for 10 years.

There are pitfalls, however. If the owner doesn't survive the 10-year term, the fair market value of the property at his death is included in his estate.

In addition, the grantor must name an independent trustee to oversee the GRIT. If the grantor transfers his company to a GRIT, the trustee will have authority to approve major company decisions, an undesirable situation for a number of family-business owners.

To preclude such problems, Mollin suggests transferring 49 percent of a business to a GRIT and retaining 51 percent in the owner's name. Under such an arrangement, the trustee could not make any company decisions. "It doesn't save the maximum amount of estate taxes, but often personal considerations must be taken into account," he says.

Family-business owners also can take advantage of a provision that permits taxpayers to give children, grandchildren, and others up to $10,000 a year tax-free. These gifts, generally placed in approved trusts, are irrevocable. If you are married, your spouse also can give $10,000 per recipient each year, or one spouse may give $20,000 if the other spouse agrees. For example, a grandfather and grandmother could give $20,000 to each of four grandchildren and thus transfer $80,000 from their estate tax-free each year. In a given year, however, the total of the grandparents' gifts exceeding $20,000 would count against the $600,000 sum that would be exempt from estate taxes under the Unified Transfer Credit.

Mollin says it also is possible to use the one-time $192,800 gift and estate tax credit to offset taxes on large lifetime gifts. For example, the owner could give $600,000 of stock to a child tax-free. The advantage would be that all appreciation in the value of that stock would be in the child's name and out of the business owner's estate. By doing this, however, the taxpayer has used up the Unified Transfer Credit before death, and thus the remaining estate may be subject to estate taxes.

More changes affecting estate planning may be on the way, says Mollin, who adds that it is essential for family-business owners to draw up estate plans: "The tax laws have changed so quickly that what you were able to do last year in the estate-planning area you can't do this year, and perhaps what is allowed now may not be allowed in 1990." NB

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Personal Management

To Your Health

By Norman Brown

Putting Your Finger On What Makes You Itch

Almost every other ailment evokes sympathy. Not so itching and scratching, which are more apt to evoke titters than tears from friends and even doctors. "Nobody takes it seriously," says Dr. John Wolf, professor of dermatology at Baylor College of Medicine in Houston. "Even my doctor doesn't take it seriously."

But for those suffering from an itch, their affliction is seldom a laughing matter. Itching may accompany or herald a serious medical problem, but even when it does not, it can be unbearable. Dandruff, athlete's foot, and similar problems do not threaten life, but they can seriously disrupt it through physical or emotional pain, or through symptoms that make you miserable. For the victims of many of these conditions, new drugs or proven remedies can help relieve genuine distress.

Fungal Infections. Athlete's foot, ringworm, and vaginal yeast infections often prove extremely difficult to clear up. In the past two years, though, new prescription drugs have made treating severe cases of these common infections a bit easier.

For athlete's foot and ringworm, your doctor may now prescribe Loprox cream. For more resistant cases, and for difficult vaginal infections, an oral or topical drug called Nizoral is also available. (Since some forms of eczema or allergic rashes can look like ringworm, your doctor may want to take a scraping before deciding upon treatment.)

Usually, though, over-the-counter medications are effective. For example, rubbing an antifungal cream like Micatin into the affected area often eliminates the most common form of athlete's foot (tinea) in two or three days. If white lesions appear, however, that is a sign that bacteria have taken over from the fungus. At that stage, an inexpensive aluminum-chloride solution like Desenex or Quinsana Plus is most effective; researchers at the University of Pennsylvania say it can relieve symptoms in two days.



ILLUSTRATION: KURT MULHOLLAND

Though one person's itch can be others' amusement, itching is no laughing matter for the sufferer. It's not life-threatening, but it can be a misery.

Allergies. People who suffer from allergies often find that, after a while, antihistamines no longer pack much power against the itching and swelling. In that case, a doctor may prescribe eye or nose drops containing cromolyn sodium, a potent new medication that can be used safely for long periods. Relief can come within a few days, and without the drowsiness that often accompanies oral antihistamines.

A study in 10 major medical centers has yielded a list of the most common causes of itchy skin rashes: nickel and potassium dichromate (in metal and leather watchbands), phenylenediamine in hair dyes, and the ingredients in many perfumes, colognes, drugs, and vaginal medications. If you get a puzzling rash, try to get at the cause by eliminating one possible suspect after another in things you use, wear, or eat.

Eczema And Seborrhea. Eczema, an itchy, scaly inflammation of the skin, can break out for any of a variety of reasons, such as changes in the weather, frequent bathing, scratchy fabrics, sweating, or chemicals in soaps or detergents. For flare-ups, a doctor will usually prescribe a cortisone cream and an oral antihistamine.

If you have excessive dandruff, and if one of the over-the-counter remedies doesn't work, it may be because you have seborrhea. A tar shampoo may help, or you may need to see a dermatologist.

Scabies, fleas, and chiggers can also cause itchy spots and rashes. Disinfectants, antihistamines, and steroid creams are the usual medications.

Survival Tips. If sunburn or poison ivy has caused an itch that's driving you crazy, here are a few survival tips:

- Bathe in cool or tepid water, not hot or cold.
- Add cornstarch or a specially formulated, water-soluble oatmeal such as Aveeno to tub water. (Ordinary breakfast oatmeal won't work.)
- Stifle the urge to scratch, which can damage the skin.
- If you still itch, fill a quart bottle half with ice and half with milk. Add two tablespoons of salt and apply the mixture to the affected area three or four times a day. **NB**

Norman Brown is a Providence, R.I., writer who specializes in health topics.

It's Your Money

By Paul N. Strassels



PHOTO: ©PAUL N. HENNING—UNIPHOTO

It's late, you're far from home, your car is low on gas—and you can't find your wallet. Whom should you call, and how can they get money to you fast?

Moving Money—Fast

The ability to move money in a crisis—often with just a phone call—can salvage a business or vacation trip, rescue a stranded family member, protect your property, even save your life or the life of a loved one.

Consider some events that could easily befall you and yours:

- While traveling, you misplace your wallet, or it is stolen. Not only are you out of cash, but you also have no credit cards or personal identification.
- Your son or daughter calls from a town 2,000 miles away. The car needs major repairs, and the shop does not accept credit cards.
- You are out of town and need a significant amount of cash to buy a big-ticket item that's just too good to pass up.
- You face the unpleasant prospect of losing a business deal unless you have the cash to close on it immediately. Your personal check won't do.

If you have the time, it's easy to send cash overnight. A wire transfer through your bank is the safest option. You can arrange to have your bank wire funds to a receiving bank where the cash is needed. All you need is the name of the receiving financial institution and the number of the account in which the money will be deposited. If the recipient doesn't have an account, the money can go to the bank's general account. The funds should be available immediately upon receipt. The only charge should be to the sender, and it should not be more than $20.

A postal money order is another effective way to move money quickly. You pay the Postal Service for the amount you want to send, plus 75 cents for each money order of $25 or less, or $1 for larger money orders up to $700, which is the maximum. You can mail the money orders to a local post office, where they can be picked up and redeemed, or you can send them to a particular address.

If the money is needed the next day, you can send the money orders either by the Postal Service's Express Mail service or by one of the many private overnight delivery services. Private delivery services and most postal facilities are not open on Sundays or holidays, but Express Mail is delivered 365 days a year.

If the transfer cannot wait overnight or over the weekend, you can use Western Union, which can move money in under an hour. Just contact a local Western Union office and say how much you want to send, where the money is going, and who is to receive it. Then charge the funds you are transferring to your Visa or MasterCard account. You can take care of everything by phone.

If you are away from home and need cash immediately, look to your credit cards' cash-advance privileges.

American Express cardholders can cash personal checks at designated travel agencies worldwide. They also can purchase up to $1,000 a week in traveler's checks (more if they hold the gold or platinum card). The dispensing machines can be found at airports and hotels. Also, emergency cash of up to $1,000 may be sent between American Express full-service offices here and abroad.

All those ways of sending funds have one thing in common: The recipient of the funds will have to provide positive identification. Without it, the bank, post office, Western Union office, or American Express representative will not release the money. Without identification, you may not be able to get out of an airport or into a cab. You won't be able to check into a hotel.

If you have lost your wallet with all your money and identification, ask for help at your airline's ticket counter or the Traveler's Aid desk at the airport. You at least will be able to make a phone call, and often other kinds of help—even cash—will be available.

Check to see if you know anyone in town who can help you. There may be current or past business associates who live or work nearby. You may have met someone at a convention who has an office or home in the city. Your family may have mentioned someone whom they have met.

Recently, a businessman flew into St. Louis on a Friday evening to participate in a special weekend meeting. As he was landing, he realized his wallet was missing. He didn't even have a quarter to make a phone call. A flight steward, who lived nearby, lent the businessman $20 and gave him a ride to his hotel. (Fortunately, the room was guaranteed.) Wiring money was out of the question because the banks were closed for a three-day weekend. He had no identification, so Western Union was no help. And he felt he didn't know those attending the meeting well enough to ask for assistance. To make matters worse, he didn't know a soul in town.

His solution: He phoned home. His wife immediately sent a blank check, a Visa card, and $250 in cash by Express Mail. The package arrived Saturday morning.

The wallet turned up in another suit of clothes he had left at home. NB

Making It

If you want to build an offbeat business, it may help to be a wild and crazy guy named Steve. Here are three cases in point.

Through Glasses, Darkly

Stephen A. Gold and Charles Hao are the founders of a company called International Sun Shade, near Ghirardelli Square in San Francisco, that franchises sunglass stores. They are one of business' odder couples.

When Gold says, "I'm very hyper," the only possible response is, "Yes, I've noticed." His conversation shoots off in all directions, propelled by a congenital enthusiasm. And when he says, "I'm a natural salesman," he compels belief. No one who spends five minutes with him could doubt that this Jewish marathon runner from Miami once made $1,000 a day selling insurance in rural Mississippi.

Hao, by contrast, is a paradigm of Oriental calm and detachment. He is a native of China who grew up in Japan and came to the U.S. as a 17-year-old. As Hao reflects aloud on his business decisions, he does so in a measured, even pedantic tone. "I'm very conscious of the cost factor," he says, "and also the diminishing-returns factor."

The two men are the yin and yang of International Sun Shade, a company that has thrived on their contradictions. Hao, 43, is chairman and chief operating officer. Gold, 33, was president and chief executive officer until last December, when he yielded those titles to Wallis Arnold, 30, who had been marketing director.

Now Gold—who has Arnold's old title—will travel extensively. He left in February for an extended trip to Australia, which Arnold calls "a great market. He's checking out the major cities and the level of competition."

Gold and Hao met about three years ago, when Gold was an area franchisee for a company that provides mailing services, and Hao owned one franchise. Hao also owned three sunglass stores in San Francisco. He has owned about 20 businesses of various kinds over the years, he says, but he finally "realized that the sunglass business required the least amount of effort to generate income, compared with other businesses."



PHOTO: ©ROBERT HOLMGREN

Sunglass-store franchisors Charles Hao, left, and Steve Gold, seen here in the Sun Shade Optique store in San Francisco's Ghirardelli Square, may have it made in the shades.

When Gold took a look at Hao's sunglass stores, he was impressed: "I could not believe the phenomenal business this gentleman was doing—$1,000 or so a square foot, which is unheard of in specialty retailing."

Hao's stores didn't look different from "any other mom-and-pop sunglass store," Gold says. "The difference that I noticed in Charles' stores was the way he merchandised. This man is so detail-oriented; that is what separates him from everyone else."

Hao now has four stores, all bearing the Sun Shade Optique name, and none any longer has a "mom-and-pop" air; like all Sun Shade stores, they have a sleek high-tech design. But the attention to detail is still there—in clear, accessible displays, in an abundance of mirrors, and in the logical groupings of sunglasses by price and design. Each Sun Shade Optique carries at least 840 different kinds of frames, from about two dozen manufacturers.

It took Gold more than six months to persuade Hao to go into franchising. "I didn't want to jump in too fast or do too many things at one time," Hao says.

Says Gold: "His strong points are my weak points. I don't have an analytical mind. He understands the sunglass industry inside out. I didn't understand the sunglass industry; I understand franchising."

By early this year, nine Sun Shade Optique stores were open—most in California—and agreements had been signed for 10 more, including stores in Chicago and Miami. At the present pace, Arnold expects 35 stores to be open by the end of the year.

Gold says that if International Sun Shade could eventually open 250 stores in the U.S., that would give the company 25 percent of a market that has grown—according to the Sunglass Association of America, a trade group headquartered in Norwalk, Conn.—to more than $1.3 billion in annual sales.

The profits in sunglasses are potentially very large, because, as Gold says, "sunglasses are just not too expensive to make," and yet, as fashionable accessories, they can command premium prices. The buyer of a pair of name-brand sunglasses at a Sun Shade Optique store spends, on average, around $60. And, as Gold points out, this is a market that keeps renewing itself: "The average woman buys two to three pairs of sunglasses a year—or more, if she sits on any of them."

—Michael Barrier

The Accidental Tourist

Steve Rondel combines computers with travel products in this voice-activated computer, which translates English into other languages.



PHOTO: © RICH FRISHMAN

Not long ago, Stephen A. Rondel showed some visitors to his office the first working model of a sleek, 2½-pound gadget that would fit comfortably in an over-the-shoulder bag. This was not his first demonstration of the product, but before, he had to use clumsy external electronics; this was his first chance to try out a complete machine, with its own compact, densely packed circuit boards. For Rondel, as for his visitors, the question was: Would it work?

To find out, Rondel did not press a button or turn a dial. Instead, he spoke to the machine as if it were a desk clerk: "I would like to reserve a room, please." Immediately, it repeated his message—in highly mechanical but distinct Spanish. Rondel spoke again, as if to a waiter: "Bring me a fork, please." And again, Spanish words emerged.

The machine was, to be sure, slightly temperamental; Rondel had to repeat some words. "The machine expects you to talk to it in defined, rigorous steps," Rondel said. "We'll be able to adjust that, I think, as we get down the road."

"We" is Advanced Products & Technologies, a 35-employee firm that Rondel, 44, founded and runs from its headquarters in Redmond, Wash., a Seattle suburb. APT has made its name as a travel-products company, selling ingeniously designed accessories to affluent tourists through department-store chains such as Bloomingdale's and Nordstrom.

APT's products include a voltage converter for foreign electrical outlets; a portable smoke detector; a fabric shaver, which removes the "pills" that often form on sweaters, trousers, and other apparel; a portable safe that looks like a coat hanger; and an exceptionally compact drip coffee maker that is barely larger than the cup into which the coffee drips. Two years ago, APT adopted the Ronde label for all these travel products.

The translator, a portable computer called Voice, is a truly upscale travel accessory—its retail price, when it finally reaches stores later this spring, will be around $2,000. That price will not include the software that permits the translations; those cartridges will sell for $250 or more apiece.

The first two cartridges will have a capacity of at least 35,000 sentences that can be translated from English to Spanish. Cartridges for translating English into French and Japanese will follow in a few months. By inserting two cartridges—one for English and one for a foreign language—the English-speaking traveler will be able to ask foreigners far more questions than could be included in a typical phrase book. (Voice will not translate their replies, though—at least not yet.)

From the beginning, APT has been a sort of closet computer company. Rondel, a systems engineer, started APT in 1976 by making voltage converters in a horse barn, as a sideline to his regular job with a company that made computers for phototypesetting. "I had the urge to make computers," he says. "I thought the voltage converter was going to get me into making them. I never knew it was going to get me into travel products."

Now he has come full circle. He describes his voice-activated computer as "state of the art," and if it is not unique—other voice-activated computers have been announced in recent months—it is extraordinary in its compactness and portability, in the size of its vocabulary, and in its ability to translate one language into another.

And Voice is only his opening shot in a war on computer keyboards, Rondel says. "I think it's stupid to have to type." He speaks of a future when assembly-line workers, "hands busy, eyes free," will converse freely with a computer that helps them do their jobs—and when a videocassette recorder will understand when you say, "Tape Johnny Carson tonight."

Now that voice-activated computers are a reality, Rondel says, "it's just phenomenal how you begin to think of things to do, problems to solve, and ways to control complex mechanical things."

But Rondel has a problem that his voice-activated computer has created more than solved. Over the past few years, as he expanded the Ronde line and developed Voice, he in effect built two companies simultaneously. But because he has had more difficulty raising capital than he expected, he has had to build them with money scarcely adequate to keep one company afloat.

APT's travel products have yet to make money; Rondel has never had the capital to build an inventory that could support his expanding sales. And like other American manufacturers of consumer electronics, he has had to fend off strong competitors from the Far East—competitors that usually enjoy more favorable financial terms from American retailers than APT does, thanks to age-old trade practices. Voice has produced no revenue yet, but it has instead, Rondel says, consumed "well over $1 million" in product-development costs. As a result, APT has reported heavy losses since it went public in 1986, including a 1988 loss of $1.8 million on sales of only $1.5 million.

For the moment, though, the pressure is off: Rondel raised an additional $1.5 million late last year in a private placement of stock. Next year, he says, APT will begin introducing "voice-based" consumer products that sell for under $150—"mainstream products" that will be "immeasurably simpler to use" than existing versions.

APT's prospects thus appear brighter than they did last year, when, Rondel says, "I looked into the pit." But he is well aware that APT's trials are not over yet. Sometimes, he is reminded, the visionaries, the people who really see the future clearly . . . Rondel steps in to finish the thought, one he has obviously had himself: "They have to get killed. Unfortunately."

But he says it with a smile, like a man who has too firm a grip on the future to let go.

—Michael Barrier

Steve Sawyer, holding Staple the cat, heads PAD, a New York City office-supply company staffed mainly by out-of-work performers—some of them, like Sawyer, veterans of doo-wop groups of the '50s and '60s. Here Sawyer joins actor-director Joel Stevens, left, doo-wop singer Eddie Rezzonico, and ballroom dancer Jack Dennis in serenading a customer.

A Blast From The Past



PHOTO: © BENNO FRIEDMAN

It's Monday morning at the office, and that second cup of coffee hasn't waked you up yet. Maybe you need something stronger, like a dose of doo-wop. So what should you do—turn the radio to the station that plays golden oldies, or pick up the phone and call the company that sells you office supplies?

It's not so silly a question. Assuming, that is, that you're in New York City and you buy your paper clips and copier paper from a company called PAD. The initials stand for Performing Artists Diversified, and some of the performing artists on PAD's payroll are veterans of rock 'n' roll groups of the '50s and '60s. By phone and sometimes on street corners, they sing pitches for PAD in the style of old Top 40 hits.

PAD's founder, Steve Sawyer, 41, struggled for years to make a living by singing and writing doo-wop. Sawyer, who was born Stephen Katz in Brooklyn, dreamed of being "bigger than the Beatles," but he never got past the fringes of success. At one point he and a friend recorded an album that was "all over New York radio"—but Sawyer, desperate for money, heard it played while he was driving a cab. After being robbed at gunpoint on Manhattan's West Side in the late '70s, he walked away from his cab and turned to selling office supplies.

But as he made his rounds, his frustration built: "One day, I had a cassette of my music in my bag, and I decided I was going to walk into the next place and let them know that I was a composer. I was going to let them know that if they bought their office supplies from me, they were giving me an alternative way of making a living." He quickly found his show-business background to be an effective selling tool.

Sawyer moved on to two other office-supply companies, at each one bringing a few other out-of-work performers under the umbrella of what he called the "performing artists division." Selling made sense for actors and musicians—the workday was flexible enough to allow time for auditions.

At the second company, Sawyer and five other employees pushed the division's sales to $50,000 a month. When his employer went bankrupt, Sawyer decided to go into business for himself. With the help of Barry Alper, a New York investor, he set up PAD as an independent company in late 1987.

PAD now occupies a floor in a grimy office building near the garment district. Three cats named Staple, Pen, and Pencil share the premises with 25 people, 20 of them performers—singers, actors, directors, plus one ballroom-dance instructor.

Typically, Sawyer says, a two-member sales team will leave a packet of PAD's press notices for a purchasing agent and call back later for an appointment. "We ask that person if they have two seconds to smile," he says, "because we'd like to tell them about our company in other than just the standard way." Then some of PAD's salespeople break out in the harmonies of doo-wop:

Actors drive taxis, just to survive.
Others wait tables in crummy old dives.
But we do it different:
We sell office supplies.

PAD's sales were $1.3 million last year, and its customers include law firms, accounting firms, and banks.

PAD's success is in fact a little odd. At most companies, salespeople routinely vow to fall on their swords if anyone so much as hints that they are devoting less than 110 percent of their time and energy to making their customers happy. PAD's salespeople, by contrast, invite their customers to make them happy, by giving them orders that may eventually let them escape from their jobs altogether.

"Help an artist follow a dream," a PAD business card says. The message turns many people on. Does it turn others off? "Absolutely, yes," Sawyer says. "We get that."

But, he says, "because we tell the truth from the beginning," PAD's customers "are prepared and supportive"—no one is ever deceived about where a PAD employee's strongest loyalties lie.

And, Sawyer adds, no PAD salespeople have yet failed to fulfill their duties to their customers: "If we let that happen, the company wouldn't work. The bottom line, no matter what your gimmick might be, is that you must be competitive."

—Michael Barrier

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Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Increase Minimum Wage To $4.65 An Hour?

The Senate Labor and Human Resources Committee has proposed increasing the minimum wage to $4.65 an hour. Supporters say the increase of $1.30 an hour over three years would merely help offset the effects of inflation since 1981, when the minimum wage was raised to its current level. Opponents charge that a minimum-wage hike of this size would force employers to lay off or delay hiring as many as 750,000 workers, most of them young people with little education and few job skills—those who supposedly would benefit from the proposed increase. Should Congress raise the minimum wage to $4.65 an hour?

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2. Repeal Section 89 Of Tax Code?

Many in Congress want to repeal newly effective Section 89 of the tax code, which imposes stiff penalties on employer-paid nonpension benefit plans that favor higher-income workers. Repeal proponents, most of whom agree with Section 89's intention of protecting benefits of lower-paid workers, say the provision is so complex and compliance is so difficult that companies will be motivated to offer fewer benefits to all employees. Some opponents of repeal believe the goal of Section 89 is so important that it must be pursued, even at the expense of some firms and their employees. Should Section 89 be repealed?

3. Enact Federal Product-Liability Law?

State product-liability laws vary greatly. Some in Congress favor having these laws superseded by a uniform statute that clearly defines the responsibilities of manufacturers and other firms for injuries involving products made or sold by them. Proponents say a uniform statute that defines responsibilities and rights of businesses and consumers would lead to lower prices and more product innovation. Opponents believe the present network of state laws protects consumers well. A federal law, they say, would likely discriminate against injured parties. Should Congress enact a federal product-liability law?

Verdicts On February Poll

Here is how readers responded to the questions in the February issue.

	Yes	No	Undecided
Should the budget be balanced through spending curbs alone?	82%	15%	3%
Should the budget be balanced through tax increases alone?	2%	97%	1%
Should the budget be balanced through spending cuts and tax hikes?	19%	78%	8%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

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By Ed Hirsch, Special Feature Writer



JOLIET, IL—You may have read about Nancy Freeman in leading business publications or seen her on network TV. A highly-successful real estate broker, Freeman owned some apartments in her hometown of Joliet, Ill. About 8 years ago, she heard about Property Valuation Consultants, a company that lowered real estate taxes. PVC did the job and saved her thousands of dollars for which it received a percentage of the savings.

Several years later, she was approached by PVC to offer their services to her property-owning clients. Representing the company one morning each week, she netted better than $60,000 in just 90 days! Freeman soon bought PVC, and the 15-year old company is now embarking on a major program setting up PVC affiliates in all 50 states.

One of the best kept secrets is that property owners can actually appeal their real estate assessments. Nationally, fewer than 2% of all assessments are ever challenged. But a recent study of 10 major cities shows that 4 out of 5 assessments were reduced on appeal. "Most people don't even know how to attempt it," says Freeman, "and we handle everything for them in a win-win situation."

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For Your Tax File

Last-Minute Tax Decisions

By Gerald W. Padwe, C.P.A.

Where has the winter gone? It is hard to believe that Christmas vacation with the family was several months ago and that April 15 is upon us.

As you sit down with the typical shoe boxes of records, the pads of paper, the freshly sharpened pencils, and the tax forms and booklets from the federal government and your state, keep in mind that even at this late date, there are still a number of tax strategies to consider for your 1988 return.

First, the good news.

Since April 15 is a Saturday, you get a free ride until Monday, April 17, to file your federal returns and send in the check for any last-minute balance. Virtually all states also permit the same leeway.

This means you have two additional days to spend preparing your returns and accumulating interest on the cash balance you will use to pay the tax liability.

For too many of us, however, that probably means we will wait an extra two days before starting work on the returns.

Remember that you also have until April 17 to make a 1988 payment into your Individual Retirement Account, assuming you have not already contributed the maximum allowable amount for that year. If you have not established an IRA, you have until April 17 to set up one and get credit for a 1988 contribution.

This is the due date for payment irrespective of whether the contribution to the IRA will be deductible. Many taxpayers have made the decision that the tax-free buildup of earnings in an IRA—even though the contribution for the year is not deductible—warrants continued annual payments to the plan. To the extent the contribution is deductible, remember to reflect that deduction on your 1988 return.



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.



PHOTO: ©PETER GARFIELD—FOLIO

The old adding machine may not qualify for expensing when you and your adviser figure your 1988 taxes, but the computer could give you that break if you bought it last year.

A corollary of the decision to continue IRA contributions even when they're not deductible is that the 1989 payment should be made as early as possible to obtain the longest possible buildup of tax-free earnings. For example, a person who made a 1988 contribution a year ago has reaped a full year's earnings, which are not subject to current tax.

If you purchased business equipment in 1988 that is subject to depreciation, ask your tax adviser about the election to expense up to $10,000 of the equipment. The present value of a $2,800 tax reduction today (assuming the expense would be deducted at a 28 percent rate) is obviously significantly higher than that same $10,000 spread over five or seven years through annual depreciation.

If you had self-employment income in 1988 but have not yet made a contribution to your Keogh plan, you may do so by April 17 and get the benefit of the deduction on your 1988 return. Unlike an IRA, however, your Keogh plan had to have been set up by Dec. 31, 1988, in order for you to receive a 1988 deduction.

If there was no Keogh plan last Dec. 31, and if you set up one today, the payment you make on or before April 17 will be a 1989 contribution. It is possible, however, to set up a Simplified Employee Pension Plan by April 17 or an extended due date, make a contribution to it, and obtain a 1988 deduction. Establishing such a plan, however, will require consultation with your tax or employee-benefits adviser.

Inaction Can Be Dangerous To Your Financial Health

If you are one of an admittedly small group of people whose accrued benefits from all qualified retirement plans and IRAs exceeded $562,500 on Aug. 1, 1986, read this carefully. If you do not, it could cost you substantial tax dollars.

The 1986 Tax Reform Act imposes a 15 percent excise tax on distributions from such plans exceeding, in general, $150,000 a year. (Keep in mind that there are special rules that apply to lump-sum distributions.)

The excise tax may be avoided by making a "grandfather election." The election is available only to those with $562,500 accrued plan benefits on Aug. 1, 1986. If it is to be made, it must be accomplished no later than April 17 with a 1988 Form 1040 filed in a timely fashion; if you get an extension to file your return, however, you also extend the time to make the election.

Unfortunately, there are a number of situations in which making the election could actually hurt a taxpayer, so an informed decision is absolutely essential. If you believe you may meet the accrued-benefits test, and if you could get distributions exceeding $150,000 a year sometime in the future, you need to determine whether the election is beneficial or harmful to you.

If this provision applies to you but you have not yet begun considering it, it may be advisable for you to obtain an automatic four-month extension for filing your 1988 return. Once April 17 goes by without an extension request, it will be too late to act. NB

Need More Time To File?

By Paul N. Strassels

If you procrastinate in filing your federal tax return, take solace in the fact that you are not alone. More than 100 million income-tax returns from individuals and from Schedule C unincorporated businesses will be filed this year, and if custom holds, almost half will not be mailed until after April 1.

As usual, there will be traffic jams at the post offices on the evening of April 17, a Monday, as last-minute filers make their mad dashes to have their returns postmarked by the IRS deadline. (As noted on the previous page, you have until April 17 to file this year.)

Yet there are several options still available to give you more time to complete your return.

For example, if you are living and working outside the U.S. on tax day, you automatically receive a two-month extension of time to file and pay your taxes.

There's no special form to be completed. Just make the notation on your return, which must be filed by June 15. (You don't have the extra two days in June that you have in April.)

The IRS used to provide this two-month extension to everyone who was traveling abroad on tax day. In parts of California, Arizona, and Texas, some residents would make short trips to Mexico on tax-deadline day, thus qualifying for the automatic extension. In Buffalo, N.Y., or Seattle, a quick foreign trip meant crossing the Canadian border; in Detroit, for example, April 15 for some was a day to have lunch in Windsor, Ontario.

The IRS cracked down only when some airlines started advertising foreign travel as a way to extend your tax-return deadline.

It is possible to obtain an automatic four-month extension of time to file your taxes by completing IRS Form 4868 and mailing it by April 17. Only seven lines long, it asks for your taxable income, amounts withheld and paid as estimated taxes, and what you expect to owe, if anything. Include with Form 4868 a check for the amount of taxes you owe. Your request for an extension will be granted routinely.

How accurate must you be with your estimate? If you overpay, the extra amount will be refunded. If you underpay, you'll have to make up the difference when you file by mid-August. There's no penalty as long as your estimate covers at least 90 percent of your final tax liability.

You can get even more time from the IRS, but you'll need a valid reason. If you won't be able to complete your 1988 income-tax return by mid-August, request a further extension by filing Form 2688. You must explain why it is impossible to finish your return without the additional time.



Paul N. Strassels, president of Money Matters Inc., Burke, Va., is a tax-law specialist and financial adviser.



PHOTO: ©CHARLES GUPTON—THE STOCK MARKET

If Paris or some other place abroad is where you live and work on tax-deadline day, you have two more months to file your federal return.

Boosting Medical Deductions

A person who has a reasonably comprehensive health-insurance plan finds it almost impossible to qualify for a medical-expense deduction on the tax return. The reason is that medical expenses are deductible only to the extent they exceed 7.5 percent of your adjusted gross income.

One way to load up on medical expenses for a year and receive a sizable medical deduction is to make a one-time payment to a nursing facility for your lifetime medical care. According to the IRS, you can deduct all of your payment in the year you make it even though you don't receive the care until future years.

Skipping Your Audit

While you must never ignore an audit notice, you no longer are required to attend those long and tedious audit meetings.

Since time is money, spending hours, days, even weeks with an auditor can mean lost wages and earnings for individual taxpayers.

Previously, the IRS required a taxpayer undergoing an audit to be present for at least the first meeting so the taxpayer could be interviewed personally by the IRS agent.

That policy has been changed. Now you can skip your audit altogether simply by sending in your place a tax professional who can answer the IRS's questions.

Generous To A Fault

The IRS is very picky about charitable contributions. No matter how worthy the cause, you cannot write off your donations to a group that is not a qualified charity.

However, if you donate cash, food, clothing, or other items to organizations—regardless of whether they are qualified charities—in an effort to generate favorable publicity for your business, the value of those gifts qualifies as a tax-deductible marketing, promotional, and advertising expense.

Reimbursable Job Expenses

Sometimes it is easier to pay a work-related expense than ask for reimbursement. From a tax standpoint, however, such a practice can be costly. If your firm is willing to reimburse you for job-related expenses but you don't ask, the IRS won't accept your deduction.

Yet there are always exceptions. For example, in one case, an employee wrote off the costs of his driving for business.

Even though his company had a policy of reimbursing such expenses, he did not ask for reimbursement because he didn't want to stir up trouble; his immediate supervisor did not like to approve automobile expenses.

As a result, his deduction was allowed. NB

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Section 89: A Benefits Bombshell



Section 89 of the Internal Revenue Code requires all employers who offer health or life-insurance benefit plans to their employees to prove that their plans are "qualified" and that they do not favor higher-paid employees. This section of the federal tax code was part of the Tax Reform Act of 1986 and became effective on Jan. 1, 1989.

The complexity of this new law—known as the "benefits bombshell"—has created incredible confusion over its requirements and penalties. Furthermore, the Internal Revenue Service has just issued regulations, so until recently employers had no real guidance on how to comply.

The law's ostensible purpose is to expand benefits to lower-paid and part-time workers. Ironically, Section 89 will impede such efforts rather than encourage them.

Small business has been the focus of the debate over ways to expand health-care coverage because most of the working uninsured are found in small firms. But many companies, as they discover the complexities of compliance with Section 89, may decide not to offer benefits at all.

H.R. 634, introduced by Rep. John LaFalce, D-N.Y., chairman of the House Small Business Committee, would repeal Section 89.

Contact your representatives to urge cosponsorship of H.R. 634 and your senators to support repeal of Section 89.

Mandated Leave Denies Flexibility



PHOTO: ©GREG PEASE—FOLIO INC.

The House is considering H.R. 770, introduced by Rep. William Clay, D-Mo. The bill, which closely resembles last year's House bill, would require that employers provide their employees with up to 15 weeks of medical leave over a one-year period and 10 weeks of family leave over a two-year period for the birth, adoption, or illness of a child or the illness of a dependent parent.

For the first three years after enactment, the legislation would cover employers with 50 or more employees, and then the measure's coverage would be broadened to include employers with as few as 35 employees. S. 345, a similar bill introduced by Sen. Christopher Dodd, D-Conn., would cover employers with 20 or more employees.

In testifying before the Senate Labor and Human Resources Subcommittee on Children, Families, Drugs, and Alcoholism, the U.S. Chamber of Commerce expressed opposition to mandated parental and medical leave. The Chamber believes that businesses should be allowed the flexibility to determine benefit programs that they can afford and that are most suited to the needs and desires of their employees.

Contact your representatives and senators to urge them to oppose any legislation mandating parental or medical leave.

Uniform Standards In Product Liability



PHOTO: ©PETER VADNAI—THE STOCK MARKET

Early in the 101st Congress, the nation is still struggling with individual states' product-liability laws, which harm business as well as consumers because they are not consistent in their standards for deciding product-related injury lawsuits.

The current product-liability system hurts the entire nation. U.S. manufacturers must pay costly insurance premiums to cover the high liability risks that they have been assigned. Consumers suffer because they must pay higher prices for products and have fewer products available. American workers suffer through lost jobs as companies go out of business, discontinue product lines, or decide not to introduce new products.

There is an urgent need for uniformity in product-liability standards. Legislation to achieve that goal is being drafted in the House of Representatives and is expected to be introduced soon.

Contact your representatives to urge support for a uniform, federal product-liability law.

COMMENTARY

Editorial

The tax rate on capital gains affects every owner of a business, a house, or a few—as well as a few thousand—shares of stock.

Decision For Congress: Penalize Success Or Create Opportunity

"Economic growth provides jobs and hope. Economic growth enables us to pay for social programs. Economic growth enhances the security of the nation. And low tax rates create economic growth."

That statement by President Bush in his first address to a joint session of Congress was an outstanding summary of a philosophy on which there should be unanimous national agreement.

The record economic growth and major increases in social programs that have taken place over most of this decade are proof of the wisdom of that economic creed.

His stated goal is to build on the base of prosperity he has inherited, ensuring continuation of the expansion that is providing the revenues that finance the social programs.

He told Congress: "I propose that we cut the maximum tax rate on capital gains to increase long-term investment. History is clear: This will increase revenues, help savings, and create new jobs."

History is indeed clear. The capital-gains tax rate was 42.5 percent in 1968 and rose to 49 percent over the next 10 years. Realization of capital gains stalled in that period because of the tax penalty involved. When the rate was cut to 28 percent in 1978, assets sales soared. Capital-gains taxes were up $2.6 billion the following year.

The results were even more pronounced when the rate was cut to 20 percent in 1981.

There's also a lesson in the statistics for those who argue that a lower rate would be a break for the wealthy. Capital-gains taxes paid by individuals earning more than $200,000 a year went up 136 percent from 1980 to 1984 as the result of the 1981 rate reduction. For those earning more than $500,000, the increase was 306 percent.

An even more dramatic demonstration of the tax implications of capital-gains rates occurred in 1986, when federal revenues from capital-gains realization soared to $46.4 billion, up from $24.5 billion the previous year. The reason: Holders of assets wanted to avoid the sharply higher rates taking effect in 1987, when capital gains became subject to taxation at the rates for ordinary income. It doesn't require a deep knowledge of economic theory to realize that the prospect of incurring heavy tax liabilities is a strong deterrent to any market decision.



PHOTO: ©RON BOWMAN—UNIPHOTO

The record also supports the president's statement that a lower capital-gains rate translates into the savings needed to finance job-producing new businesses. In 1979, money raised through initial stock offerings jumped to $506 million, from $249 million the previous year, because of the lower rate. That process was accelerated by the 1981 reduction that was part of President Reagan's supply-side economic program. A total of $1.4 billion was raised through initial public offerings (IPOs) in 1980, the last year of the 28 percent rate on capital gains. By 1983, with the rate at 20 percent, investments in IPOs reached $12.6 billion.

The Bush administration anticipates that a 15-percent rate would produce an additional $5 billion next year alone if its proposal is adopted.

A lower capital-gains tax rate not only would help deal with the federal budget deficit by producing more revenues but also would ease the other red-ink problem the nation faces—the trade deficit.

U.S. trading partners either have no tax on capital gains or have rates far lower than ours. Thus they are better able to attract investments that increase their productivity, and they can export at more competitive prices.

There's far more to this issue than federal revenues, world trade, and other economic statistics, however. It affects every owner of a small business, a house, a farm, or even a few shares of stock.

People sell such assets for many reasons, among them age, illness, retirement, the need to pay college tuition, financial emergencies, or the perfectly legitimate purpose of simply realizing an appreciation. They should not be required to surrender a big part of that added value to the federal tax collector.

A lower rate would serve the national interest while assuring equity to individuals. The case for a rate reduction is so strong that one of the leaders in the fight for a lower ceiling believes the opposition is dominated by a motivation that has nothing to do with the facts of the issue. Richard Rahn, vice president and chief economist of the U.S. Chamber of Commerce, says the debate is actually between "those who want to penalize success and those who want to create opportunity."

President Bush has made his proposal for reducing the tax rate on capital gains. His and other pending recommendations vary according to the type of assets covered, amount of exclusions, and holding periods. These details can be worked out quickly in the legislative process.

The final version should reduce capital-gains tax rates for both individuals and corporations and reinstate the traditional capital-gains exclusion based on the length of the asset's holding period.

Congress should act promptly so that businesses and individuals can plan purchases or sales of assets.

Action—or inaction—by members on this issue will enable voters to determine whether their legislators want to penalize success or create opportunity.

The choice could not be more obvious. NB



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